G. E. Salembier
Andrew R. Moroz
Frank Stone

87-01691/

The Institute for Research on Public Policy
L'Institut de recherches politiques

A national, independent, research organization
Un organisme de recherche national et indépendant

Founded in 1972, The Institute for Research on Public Policy is a national organization whose independence and autonomy are ensured by the revenues of an endowment fund which is supported by the federal and provincial governments and by the private sector. In addition, the Institute receives grants and contracts from governments, corporations and foundations to carry out specific research projects.

The *raison d'être* of the Institute is threefold:

- To act as a catalyst within the national community by helping to facilitate informed public debate on issues of major public interest
- To stimulate participation by all segments of the national community in the process that leads to public policy making
- To find practical solutions to important public policy problems, thus aiding in the development of sound public policies.

The Institute is governed by a Board of Directors, which is the decision-making body, and a Council of Trustees, which advises the Board on matters related to the research direction of the Institute. Day-to-day administration of the Institute's policies, programs and staff is the responsibility of the president.

The Institute operates in a decentralized way, employing researchers located across Canada. This ensures that research undertaken will include contributions from all regions of the country.

Wherever possible, the Institute will try to promote public understanding of, and discussion on, issues of national importance, with clarity and impartiality. Conclusions or recommendations in the Institute's publications are solely those of the author and should not be attributed to the Board of Directors, Council of Trustees, or contributors to the Institute.

The president bears final responsibility for the decision to publish a manuscript under the Institute's imprint. In reaching this decision, he is advised on the accuracy and objectivity of a manuscript by both Institute staff and outside reviewers. Publication of a manuscript signifies that it is deemed to be a competent treatment of a subject worthy of public consideration.

Publications of the Institute are published in the language of the author, along with an executive summary in both of Canada's official languages.

The Canadian Import File:
Trade, Protection and Adjustment

The Canadian Import File:

Trade, Protection and Adjustment

by

G.E. Salembier
Andrew R. Moroz
Frank Stone

The Institute for Research on Public Policy
L'Institut de recherches politiques

Copyright © The Institute for Research on Public Policy 1987
All rights reserved

Printed in Canada

Legal Deposit First Quarter
Bibliothèque nationale du Québec

Canadian Cataloguing in Publication Data

Salembier, G. E. (Gerry Edward), 1959-
The Canadian import file

(Essays in international economics, ISSN 0826-4384)
Foreword and summary in English and French.
ISBN 0-88645-046-2

1. Canada – Commercial policy. 2. Commercial policy. 3. Free trade and protection. I. Moroz, Andrew R II. Stone, Frank, 1923- III. Institute for Research on Public Policy. IV. Title. V. Series.

HF1479.S24 1987 382'.5'0971 C87-090045-5

The Institute for Research on Public Policy/
L'Institut de recherches politiques
2149 Mackay Street
Montreal, Quebec H3G 2J2

Contents

List of Tables, Figures and Appendices ix

Foreword xiii

Avant-propos xv

The Authors xvii

Executive Summary xix

Abrégé xxi

1: Canada's Stake in an Open Trade System 1

2: Consequences of Protectionism 15
  - Economic Effects of a Tariff 18
  - Costs and Benefits of a Tariff 19
  - Non-Tariff Barriers 21
  - Other NTBs 42
  - Some Estimates of Costs and Benefits 44
  - Indirect Costs of Protection 49
  - Trade Liberalization and Industrial Structure 50
  - The Impact of Trade Liberalization on Canada 52

3: Is There a Case for Protection? 55
National Security 56
National Sovereignty 57
Market Failure 58
Infant Industry 59
Strategic Industries 63
Engineered Comparative Advantage 65
Breathing Space 66
The Nationally Optimal Tariff 68
Income Distribution 69
Protecting Jobs 70
Cheap Labour 72
Others Do It 73

4: The Changing International Trade System 77
Developments in the GATT 80
  Key articles in the GATT 82
  Strengthening the GATT System 85
Trade Liberalization Under the GATT 86
  Tariffs 86
  Non-Tariff Barriers and the GATT Codes 88
Protectionism in the the World Trade System 90
Current Extent of Protectionism 93
GATT Negotiations in the 1980s 96

5: Instruments of Canadian Import Policy 103
The Customs Tariff 105
Customs Administration 110
Valuation of Goods 111
Tariff Classification 114
Non-Tariff Measures 115
Anti-dumping Duties 127
Countervailing Duties 130
Administration of Quota Restrictions 133
Amalgamation of the Independent Import Institutions 135
Making Import Policy 136

6: Structural Adjustment, Protection, and Adjustment Policy 143
Protectionism Versus Structural Adjustment 144
Rigidities and Resistance to Adjustment Pressures 148
Responses to Adjustment Pressures 149
The Regional Dimension 152
The Role of Government 158
Concepts and Principles of Adjustment Policy 163

Canadian Experience with Adjustment Policies 169
Adjustment Policies and International Realities 181

7: Toward a Canada-United States Free Trade Agreement 183
The Present Bilateral Trade Initiative 186
Nature and Form of a Future Trade Agreement 187
Benefits to Canada from a New Trade Agreement 188
Institutional Arrangements: A Joint Trade Commission 194
Relationship with Multilateral Trade System 198

8: Summary and Conclusions 201

Appendices 211

Glossary of Terms 235

References and Suggested Further Reading 245

Members of the Institute 257

Institute Management 261

Publications Available 263

List of Tables, Figures and Appendices

Tables

Table 2.1 Invocation of Gatt Article XIX, 1978-82 **23**

Table 2.2 Import Restrictions on Key Industries in Selected Countries **26**

Table 2.3 Subsidies to Canadian Industry: 1978, 1981, and 1984 **37**

Table 2.4 Lenders and Borrowers of Officially Supported Export Financing **41**

Table 2.5 Costs and Incidence of Quotas, Tariffs and Subsidies in Canada **45**

Table 2.6 Costs and Incidence of Market Protection in Other Countries **47**

Table 2.7 Sectoral Tariff Equivalents of Tariff and Non-Tariff Barriers in Four OECD Markets, 1980 **48**

Table 4.1 Ratio of Merchandise Exports to Gross Domestic Product, 1965-1985 **80**

Table 4.2	Post-MTN Average Tariff on Industrial Products	87
Table 5.1	Illustrative List of High Canadian Customs Duties	108
Table 5.2	Textiles and Clothing: Bilateral Agreements Under Article 4 of the Multifibre Arrangement Maintained in 1984	120
Table 6.1	Sources of Employment Growth in Selected Import-Competing Industries, 1967-81	147
Table 6.2	Single-sector Communities by Region and Industrial Sector, 1976	157
Table 6.3	Illustrative List of Policies Influencing Structural Adjustment	159
Table 6.4	Selected Adjustment Cost Estimates	166

Figures

Figure 1.1	Total Canadian Imports and Exports	6
Figure 1.2	Ratio of Canadian Exports to Gross Domestic Product	7
Figure 1.3	Total Canadian Imports by Country, 1985	8
Figure 1.4	Total Canadian Exports by Country, 1985	9
Figure 1.5	Total Canadian Imports by Sector, 1985	10
Figure 1.6	Total Canadian Exports by Sector, 1985	11
Figure 1.7	Canada-U.S. Trade Balance by Sector	12
Figure 1.8	Canada's World Trade Balance by Sector	13
Figure 4.1	World Exports and Commodity Output in Real Terms, 1950-1984	79

Figure 6.1 Sectoral Distribution of Employment and Gross Domestic Product **153**

Appendices

Appendix I GATT Membership List (July 1985) **211**

Appendix II Selected Articles of the Text of the General Agreement on Tariffs and Trade **213**

Appendix III List of Beneficiaries Under the Generalized System of Preferences **223**

Appendix IV Classification of Countries According to GNP Per Capita **225**

Appendix V MTN: Status of Acceptances of Protocols, Agreements and Arrangements **227**

Appendix VI List of Goods Subject to Duty Under the Special Import Measures Act **230**

Foreword

Over the past several years Canadian and international trade policy has been the subject of intense public debate, and near the top of Canada's public policy agenda. Canadian preoccupation with developments in this area reflects in part a sharpened appreciation of the importance of international trade to the Canadian economy. The public policy debate also reflects a growing apprehension about threats to Canada's well-being arising from changes in world production and trade, from technological change, and from the policies and practices of Canada's trading partners.

The Institute for Research on Public Policy has been an active participant in the debate about Canadian trade policy and has an ongoing program of research in this area. The present volume is offered as a further contribution to public understanding of the policy issues involved. It represents the outcome of a study over the past two years of how heightened international competition moves governments, on the one hand, to reinforce barriers to imports as a means of protecting domestic producers and, on the other hand, to encourage and assist producers to adjust to change.

The authors, Gerry Salembier, Andrew (Sandy) Moroz and Frank Stone, brought a diversity of experience and expertise to this study which, it is hoped, will be of interest to both the general readers and students, as well as to people working in the trade policy community.

The Institute wishes to acknowledge with thanks the encouragement and assistance to the production of this volume which was given by a number of Canadian government officials in the Departments of Finance, External Affairs and Regional Industrial Expansion; by several members of the faculty of Carleton University, Ottawa; and by the Canadian Importers Association Inc./Association des importateurs canadiens Inc.

Rod Dobell
President

December 1986

Avant-propos

Au cours de ces dernières années, les questions de politique commerciale internationale et domestique ont fait l'objet d'un débat public intense et demeurent l'une des priorités à l'ordre du jour politique du Canada. Le désir de parvenir à des améliorations dans ce secteur est l'indice d'une prise de conscience accrue de l'importance du commerce international pour l'économie canadienne. Le débat de politique générale reflète également une appréhension croissante devant le spectacle d'un niveau de vie canadien menacé par les changements dans la production et le commerce internationaux, par les progrès technologiques et par les nouvelles politiques et pratiques de nos partenaires commerciaux.

L'Institut de recherches politiques a participé activement au débat sur la politique commerciale canadienne et il poursuit un programme de recherche dans ce domaine. Le présent volume est une contribution supplémentaire aux efforts du public pour comprendre l'enjeu du problème. Il est l'aboutissement de deux années d'études consacrées à la manière dont une concurrence internationale accrue amène les gouvernements, d'une part à renforcer les barrières à l'importation pour protéger les produits domestiques, d'autre part à encourager et à soutenir les producteurs afin qu'ils s'adaptent à la conjoncture.

Les auteurs, Gerry Salembier, Andrew (Sandy) Moroz et Frank Stone, ont apporté leurs propres expériences et connaissances à cette étude, laquelle, nous l'espérons, intéressera le public en général et les étudiants, aussi bien que ceux qui se spécialisent dans les questions de politique commerciale.

L'Institut désire exprimer sa gratitude pour l'aide et les encouragements reçus lors de la préparation de ce volume de la part d'un certain nombre de personnalités des ministères des Finances, des Affaires extérieures et de l'Expansion industrielle régionale. Sont remerciés également plusieurs professeurs de l'Université Carleton, à Ottawa, ainsi que l'Association des importateurs canadiens Inc./ the Canadian Importers Association Inc.

Rod Dobell
Président

Décembre 1986

The Authors

Gerry Salembier was educated at Carleton University and holds a Bachelor of Commerce and a Masters in International Affairs. Formerly an economist with the Institute's International Economics Program in Ottawa, he is now with the Department of Finance, working on international economic relations. His research activities have been centered on Canadian trade policy, structural adjustment, and the international trade system. He is the author of several studies, including ***Trade, Employment, and Adjustment***, co-authored with Charles Pearson.

Andrew R. (Sandy) Moroz has a B.A. (Honours) in Economics from University of Waterloo and a Masters in Economics from Carleton University. With the Institute since 1980 as an economist, he assumed in 1985 the responsibilities of Assistant Director of the International Economics Program. His research activities include Canada-U.S. trade and economic relations, non-tariff barriers, automotive trade, trade in services, and the multilateral trade system. He has written and co-authored many articles, papers and studies for the Institute and others, including the Royal Commission on the Economic Union and Development Prospects for Canada, on trade and public policy.

Frank Stone is Director of the International Economics Program of the Institute for Research on Public Policy in Ottawa, with special interests in Canadian and international trade policy. He served with the Department of External Affairs from 1949-1980, and his foreign assignments included Economic Counsellor at the Canadian Embassy in Washington, 1963-69; Economic Minister and Deputy Head of the Canadian Permanent Mission to the United Nations in Geneva, 1973-77; and Canadian Ambassador to Pakistan and Afghanistan, 1977-78. At the Canadian Mission in Geneva he was responsible for Canadian interests in international organizations concerned with trade, economic and environmental issues. In the early 1970s he was seconded to Environment Canada, where he coordinated, on the Canadian side, the negotiations which led to the 1972 Canada-United States Agreement on Great Lakes Water Quality. He is the author of *Canada, the GATT and the International Trade System*, published in September 1984 by the Institute for Research on Public Policy.

Executive Summary

International trade is of especially great importance to the health of the Canadian economy. Chapter One of this volume gives a brief description of Canada's trade and emphasizes the key role of trade policy in the overall economic policy of successive Canadian governments. The global trend toward increased protectionism that threatens Canadian economic interests is related to the desire for security and stability on the part of organized groups within nations, including Canada. As a result of these protectionist pressures, governments have increasingly resorted to various forms of trade barriers; the multilateral trading system, though by no means moribund, has come under great strain in recent years, and serious bilateral trade frictions have become increasingly frequent. However Canada, the United States and other countries have made promising steps towards resisting protectionism and further liberalizing trade, something which must be encouraged if the potential for growth and prosperity – particularly in Canada – is to be realized.

Chapter Two reviews the approaches taken by economists to the analysis of the costs and benefits of different sorts of trade restrictions. Both theoretical arguments for and empirical estimates of the potential gains from trade liberalization are presented. The consequences of trade protection for aggregate economic welfare and distributional equity are highlighted. In Chapter Three, the most frequently voiced arguments in favour of protection from import competition are examined. The evaluation of these arguments is undertaken with a view to emphasizing the interests of specific groups within society in seeing protectionist measures put in place by government.

Chapter Four describes the main features of the international trade system, including the basic principles of the General Agreement on Tariff and Trade and the major structural changes and trends in the world economy in recent years. The focus is on the relevance of these external factors to the conduct of Canadian trade policy. The chapter concludes with a description of the progress of and prospects for the next round of GATT negotiations and for the bilateral Canada-U.S. trade initiative. The main legislative and regulatory instruments bearing on Canada's international trade are discussed in Chapter Five. Changes to these trade policy tools in response to new rights and obligations created by GATT agreements are given particular attention.

In Chapter Six, the process of structural adjustment – the desired outcome of moves toward trade liberalization – is placed in the larger context of the adaptability of the Canadian economy in the face of structural changes at the global level. These include technological advances, shifts in comparative advantage and other major sources of adjustment pressures. Empirical evidence of the importance of trade and trade policy in this process is presented, along with international comparisons of the actual pace of structural adjustment. The nature of resistance to adjustment is described, and examples of how firms and workers sucessfully adapt to change are given. The balance of the chapter is given over to the role of government in the adjustment process. In the context of the basic functions that can be performed by adjustment policy, the tools and instruments employed by government are discussed in detail. The chapter also inquires into the relevance of adjustment and adjustment policies in current and prospective trade negotiations. Chapter Seven reviews the initiative for a new Canada-United States trade agreement, discusses the form and contents of such an agreement, and makes suggestions with respect to new institutional arrangements which might be created by the agreement.

The summary and conclusions of the book are presented in Chapter Eight. Taken together, they provide guidelines for the re-working of Canadian trade policy that must soon be carried out if the country is to continue to thrive in an increasingly interdependent, dynamic world economy.

Abrégé

Le commerce international est d'une importance primordiale pour l'économie canadienne. Le chapitre I de ce volume donne une brève description du commerce du Canada et met en valeur le rôle-clé joué par la politique commerciale dans l'ensemble de la politique économique des gouvernements canadiens successifs. La tendance globale à un protectionnisme croissant, qui menace les intérêts canadiens, est rapportée au désir de sécurité et de stabilité ressenti par des groupes d'intérêt qui se sont formés à l'intérieur de certains pays, y compris au Canada. Ces pressions protectionnistes amènent de plus en plus les gouvernements à avoir recours à diverses formes de barrières commerciales; le système d'échanges multilatéraux, quoique loin d'être moribond, a été mis à rude épreuve ces dernières années, et la fréquence des frictions sérieuses dans le commerce bilatéral est en augmentation. Pourtant, le Canada, les États-Unis et d'autres pays ont adopté des mesures prometteuses pour résister au protectionnisme et augmenter la libéralisation des échanges internationaux, attitude à encourager si l'on veut que se réalise – notamment au Canada – le potentiel de croissance et de prospérité.

Le chapitre II examine les méthodes utilisées par les économistes pour l'analyse des coûts et profits de différents types de restriction des échanges. Les arguments théoriques en faveur des gains éventuels d'une libéralisation commerciale et leur estimation empirique sont également présentés. Les

conséquences du protectionnisme sur l 'ensemble de la situation économique et sur la masse des profits à distribuer sont particulièrement soulignées. Dans le chapitre III, on examine les arguments les plus fréquemment avancés en faveur d'une protection contre les produits importés. Leur évaluation est entreprise dans le dessein d'attirer l'attention sur les intérêts des groupes particulieurs qui, à l'intérieur de la société, poussent le gouvernement à prendre des mesures protectionnistes.

Le chapitre IV est consacré à la description des principales caractéristiques du système commercial international, y compris les principes de base du GATT (General Agreement on Tariff and Trade), des changements structurels et des nouvelles tendances dans l'économie mondiale récente. L'accent est mis sur le rapport qui existe entre ces facteurs externes et la conduite de la politique commerciale canadienne. En conclusion, il est fait état des progrès et des perspectives relativement à la prochaine série de négociations du GATT et au projet d'échanges bilatéraux entre le Canada et les États-Unis. Les principaux moyens législatifs et commerciaux en rapport avec le commerce international du Canada font l'objet du chapitre V. Il y est particulièrement tenu compte des modifications apportées à ces instruments de politique commerciale pour répondre aux nouveaux droits et obligations résultant des accords du GATT.

Dans le chapitre VI, le processus d'adaptation structurelle – le but recherché dans les efforts de libéralisation des échangtes – est replacé dans le contexte plus général de l'adaptabilité de l'économie canadienne aux changements fondamentaux qui interviennent au niveau global. Ceux-ci comprennent les progrès technologiques, les changements dans les rapports de force ainsi que d'autres causes majeures de problèmes d'adaptation. Dans ce processus, l'importance de fait du commerce et de la politique commerciale est mise en évidence, en même temps que des exemples internationaux illustrent la véritable ampleur de l'adaptation structurelle. Le chapitre donne également des explications sur la nature de la résistance à l'adaptation et cite des cas d'entreprises et de travailleurs qui se sont adaptés avec succès. Il mentionne enfin le rôle du gouvernement dans le processus d'adaptation. Les outils et instruments employés par le gouvernement sont discutés en détail, dans le contexte des fonctions de base qui peuvent être exercées par une politique d'adaptation. Le chapitre étudie aussi la pertinence de l'adaptation et des politiques d'adaptation dans les négociations commerciales actuelles et à venir. Le chapitre VII examine le projet d'une nouvelle entente commerciale entre le Canada et les États-Unis, puis discute la forme et le fond d'un tel accord et fait des suggestions quant aux nouvelles mesures institutionnelles qui pourraient être créées par cet accord.

Le résumé et les conclusions du livre sont présentés dans le chapitre VIII. Ensemble, ils fournissent les règles de conduite nécessaires pour la restructuration d'une politique commerciale canadienne qui devra bientôt être mise à exécution, si le pays veut continuer à prospérer dans une économie mondiale dynamique et de plus en plus interdépendante.

Chapter 1:

Canada's Stake in an Open Trade System

Canadian governments have long recognized the influence of international trade on the country's economic well-being. From the National Policy of 1879 to the Canada-United States trade negotiations initiated in 1985, trade policy has been a cornerstone of overall economic policy. In spite of the often inadequate attention given to trade issues by the general public, debates over the influence of exports and imports on economic structure and performance have occupied business, labour and academia for generations. This avid interest is a natural product of the importance of external trade to Canada's prosperity and economic development. Exports provide more than 30 per cent of national income as well as employment for more than three million Canadians. Imports in turn constitute around 30 per cent of all purchases by Canadians, helping to meet both consumer and industrial demand for a wide variety of competitively priced goods and services.

Further evidence of the quantitative significance of trade in the Canadian economy is given in Figures 1.1 to 1.8, which are found at the end of this chapter. The growth of Canada's imports and exports in the past two decades has been substantial, both in absolute terms and as a proportion of gross domestic product. Although Canada's exports are more heavily weighted toward resource products than most industrialized countries, manufactured goods, including resource-based fabricated materials as well as end products, make up more than three-quarters of total exports. Trade in manufactures is normally the most dynamic and fastest growing component of world trade; it experienced particularly rapid growth during the global recovery of the mid-1980s. Canada's traditional manufacturing trade deficit has narrowed to near balance in recent years due to a surplus with the United States, posted mainly on automotive products trade. The traditional large surpluses of the resource and agricultural sectors have continued into the mid-1980s. To be sure, neither sectoral nor total merchandise trade balances per se are meaningful indicators of strength or weakness, but they are important as measures of the country's reliance on international trade for markets to absorb Canadian production and for sources of supply to satisfy Canadian demand.

Canada's interests in international trade are threatened by a rising global incidence of protectionism. Governments in many if not most countries have seen fit to put in place an increasing number of import restrictions and trade-distorting practices. For example, in the United States there has been an increase in the use of restrictive trade measures such as countervailing duties. A number of these have been directed at specific Canadian industries, and have led to restrictive retaliatory measures by Canada.

Resistance to change on the part of firms and workers in specific industries and regions has been the driving force behind the demands for trade protection to which policy-makers have felt compelled to respond. Individuals and interest groups are increasingly demanding government action to insulate them from the uncertainties and anxieties about the future that seem to threaten current ways of life, which many feel are satisfying and not worth risking. Calls for economic security and stability have often resulted in protection from import competition, regardless of whether imports are the cause or the symptom of change.

Protectionist pressures have been fuelled by the global economic developments of the past two decades, in particular the increase in global economic integration. National economies have become increasingly linked by the flows of goods, services, people and capital, raising concerns in every nation about economic vulnerability to external economic developments and the policies of foreign governments. These concerns have given rise to demands in some quarters for a retreat from liberalized trade in order to reduce the real or imagined threats to economic security and national sovereignty.

This call for a broad retreat is underpinned by numerous specific demands for stronger trade barriers in major sectors, especially the manufacturing sector. It reflects, among other things, the shift in comparative advantage in numerous manufactured products from the developed to the developing countries, notably the newly industrialized countries (NICs). In response to their loss of comparative advantage, producers in such industries as textiles, clothing, steel, and footwear are, in many countries, demanding stronger and often more permanent trade protection. A major reason for the existence of trade protectionism has always been that well organized and funded groups such as large industry associations and labour unions are able to exert concentrated political pressure that is not easily matched by the widely dispersed groups such as consumers. Consequently, the stronger groups are frequently able to obtain their ends.

The rise of the "new protectionism", as it came to be known in the 1970s, has accompanied the generalized growth in government involvement in the economies of the industrialized Western democracies over the past two decades. These countries are the destination of the majority of the goods and services entering into world trade, and a growing proportion of their trade is subject to trade barriers of one form or another. The trend toward barriers that discriminate against particular countries, often in the form of "voluntary" bilateral arrangements restraining exports, is especially worrisome.

These disturbing developments have contributed to widespread pessimism and disillusionment regarding the health of the multilateral trade system, of which the General Agreement on Tariffs and Trade (GATT), dating from 1947, is the centerpiece; the effectiveness of the rules embodied in the GATT is being called into question in some quarters. New forms of import restrictions have proliferated, and tariffs are no longer the main element of the trade policies of many GATT members, as was the case in 1947. Attempts to deal with non-tariff barriers (NTBs) were made during the Tokyo round of multilateral trade negotiations (MTN), but the potential of the resulting codes to constrain protectionism has yet to be proven. Most of the codes have been signed by only a limited number, including almost all of the industrialized countries (see Appendix Five). Some observers have gone so far as to say that the outcome of the Tokyo round negotiations has in fact legitimized the use of complex, legalistic import policy systems whose effects on international trade are often unpredicatable and on balance quite restrictive of imports.

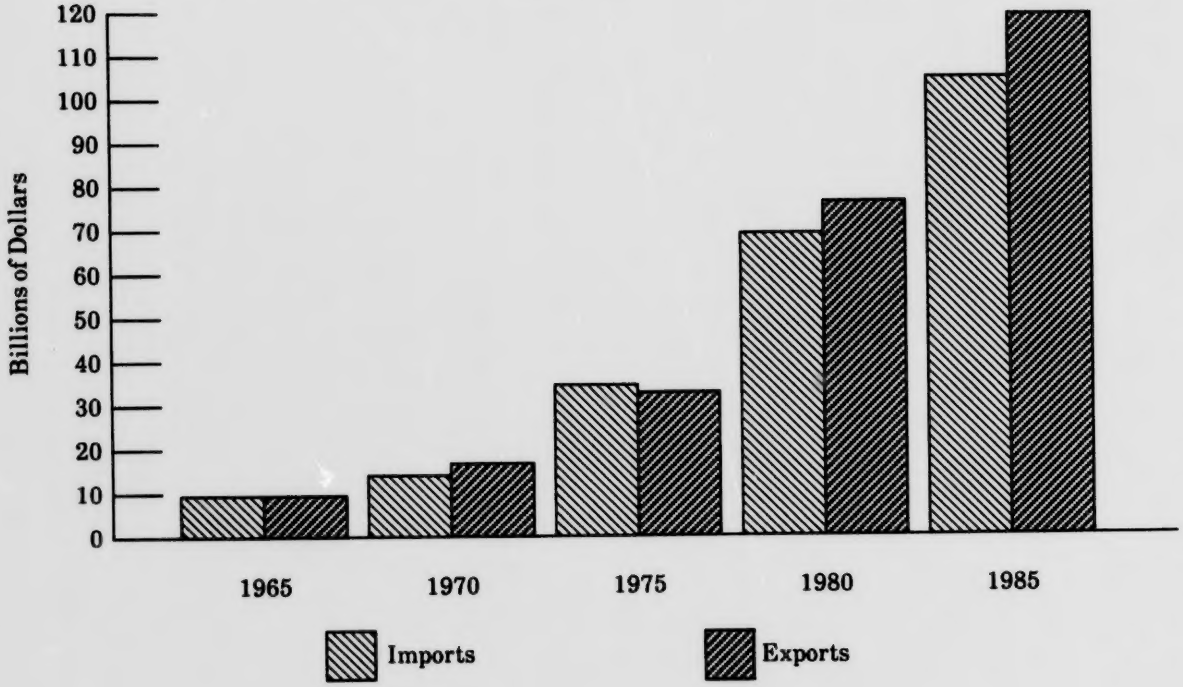
Yet the liberal trade order is by no means moribund. Trade liberalization has been proceeding even as the new protectionism has taken root. The tariff cuts negotiated in the Tokyo round have been implemented according to schedule, or even faster in some countries. Sectoral pressures for new or extended protection have been resisted in a number of notable recent instances, including the traditionally import-sensitive footwear industry in the United States, the European Community and Canada. Japan also has announced a series of market-opening measures aimed at deflecting demands for restrictions on its exports, especially from the United States.

By far the most promising developments, however, are the steps being taken toward launching new trade negotiations, both at the multilateral level under GATT auspices and bilaterally in the case of Canada and the United States, a two-way trade that is the largest of any pair of countries in the world. In Canada, there has emerged a new recognition of the necessity for an outward-looking economic policy. The United States has begun to exercise stronger global leadership in trade matters, playing the key role in the launching of a new round of multilateral trade negotiations in 1986. The Canadian initiative for a bilateral trade agreement with the United States is being pursued actively in both countries, in the expectation that such an agreement would be fully consistent with GATT rules and would positively reinforce progress in multilateral talks. Firm European support for an early start to a new round has also emerged for the first time since the end of the last round, and the Japanese have continued their long-standing advocacy for further multilateral trade liberalization. The thorny question of adjustment to trade liberalization, always the bottom-line concern in terms of both costs and benefits, has begun to receive greater attention in many countries as an integral part of negotiations on subsidies, safeguards and other issues, and as a critical problem for economic policy in its own right.

With these developments in the world trade system going forward, Canadian trade policy and the country's economic structure generally must soon undergo substantial changes. Trade is much too prominent a part of Canadian economic activity to allow the status quo to prevail. Moreover, notwithstanding external pressures, the import policies currently in force place serious burdens on the economy in terms of both aggregate efficiency or performance and income distribution across groups and regions. At this juncture, it has become evident to most segments of Canadian society that things cannot remain as they are without incurring sizeable static economic costs, causing unnecessary friction in international relations, and denying the great potential of a more open trade policy to enhance Canada's economic performance and prospects for the future.

The time is therefore ripe for a thorough re-examination of the political and economic rationales behind Canadian trade policy. A reassessment of the available policy options and their consequences in light of international and domestic influences and constraints is also in order. The purpose of this book is to provide the basis for these crucial tasks.

FIGURE 1.1
Total Canadian Imports and Exports
1965 to 1985



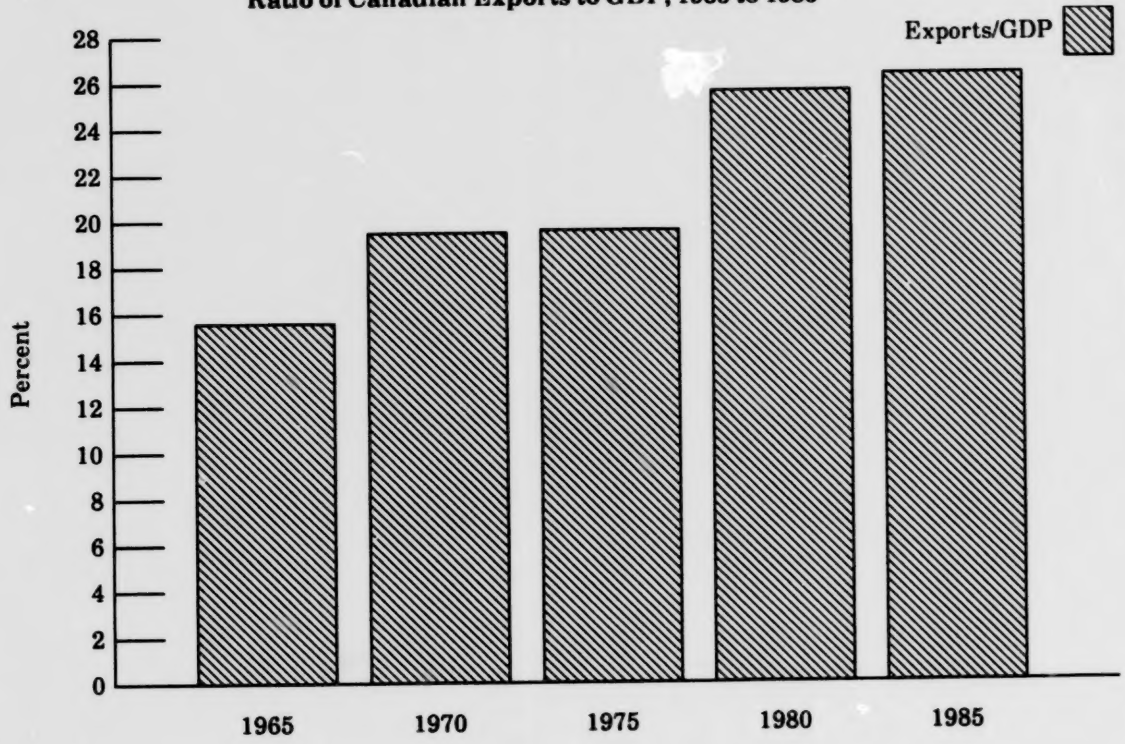


FIGURE 1.2
Ratio of Canadian Exports to GDP, 1965 to 1985

FIGURE 1.3
Total Canadian Imports by Country 1985
(CND$ 104,914,244)

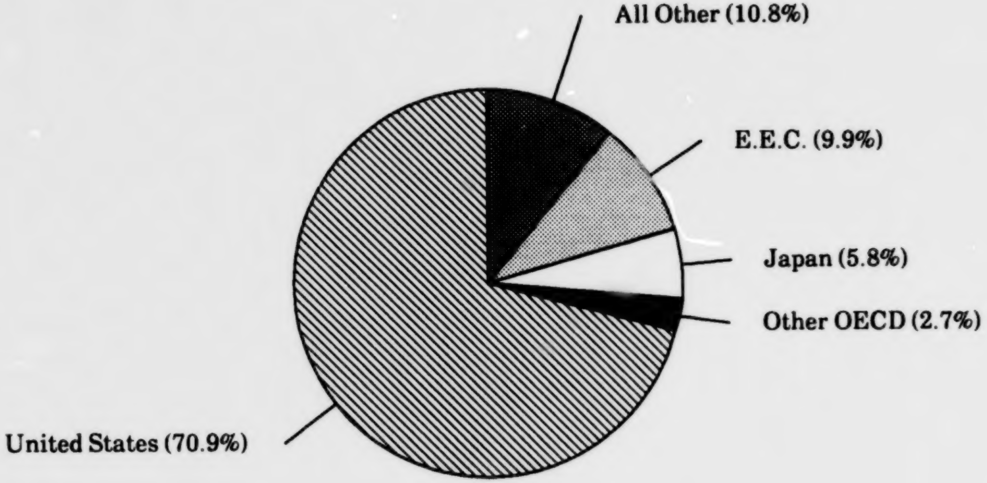


Figure 1.4
Total Canadian Exports by Country 1985
(CND$ 119,241,330)

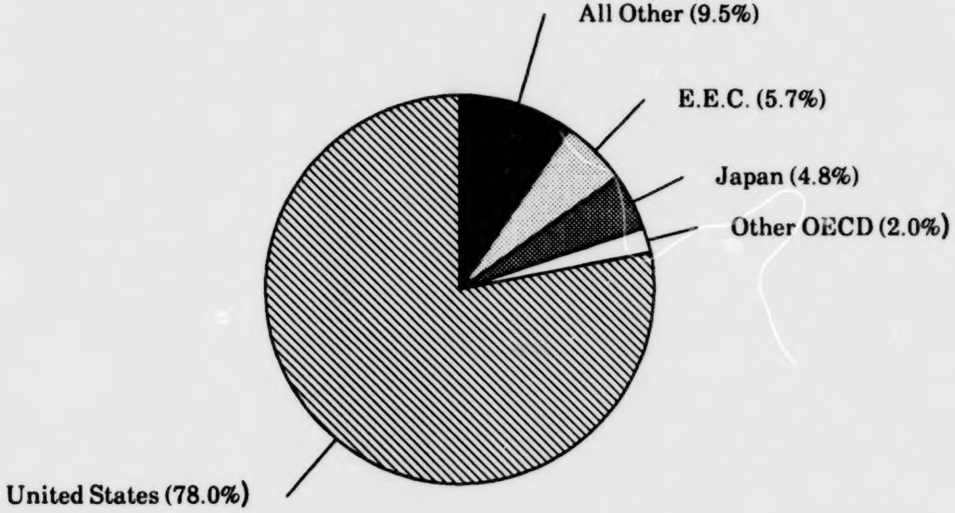


FIGURE 1.5
Total Canadian Imports by Sector 1985
(CDN$ 104,914,244)

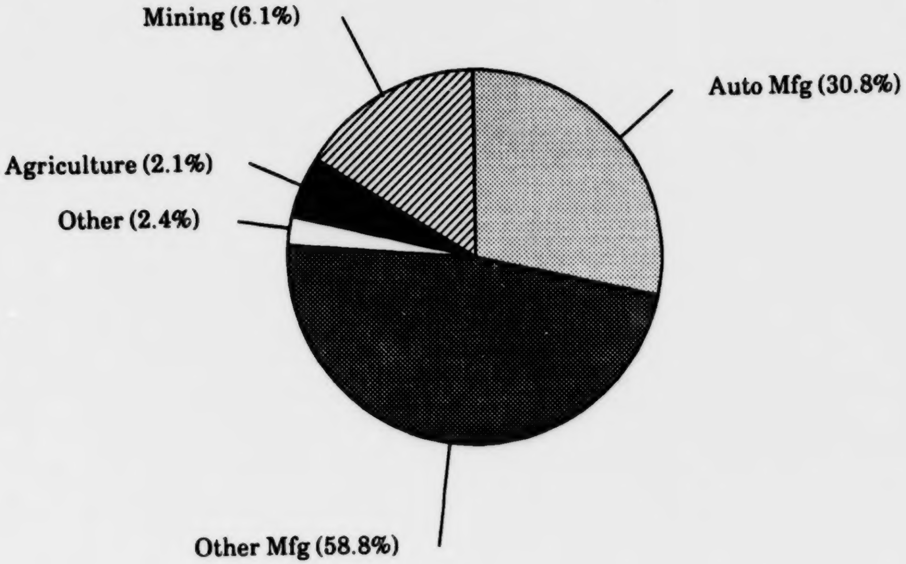


FIGURE 1.6
Total Canadian Exports by Sector 1985
(CDN$ 118,692,796)

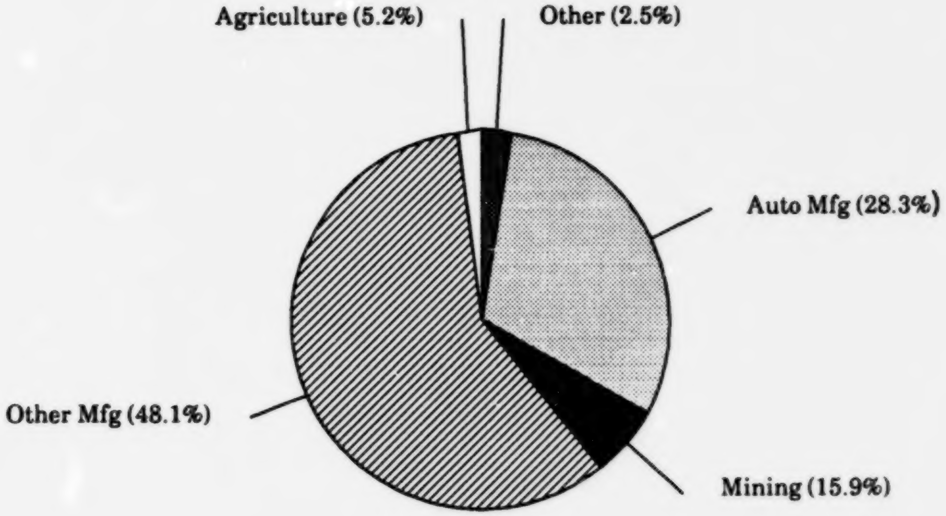


FIGURE 1.7
Canada – U.S. Trade Balance by Sector, 1985
(Exports less Imports)

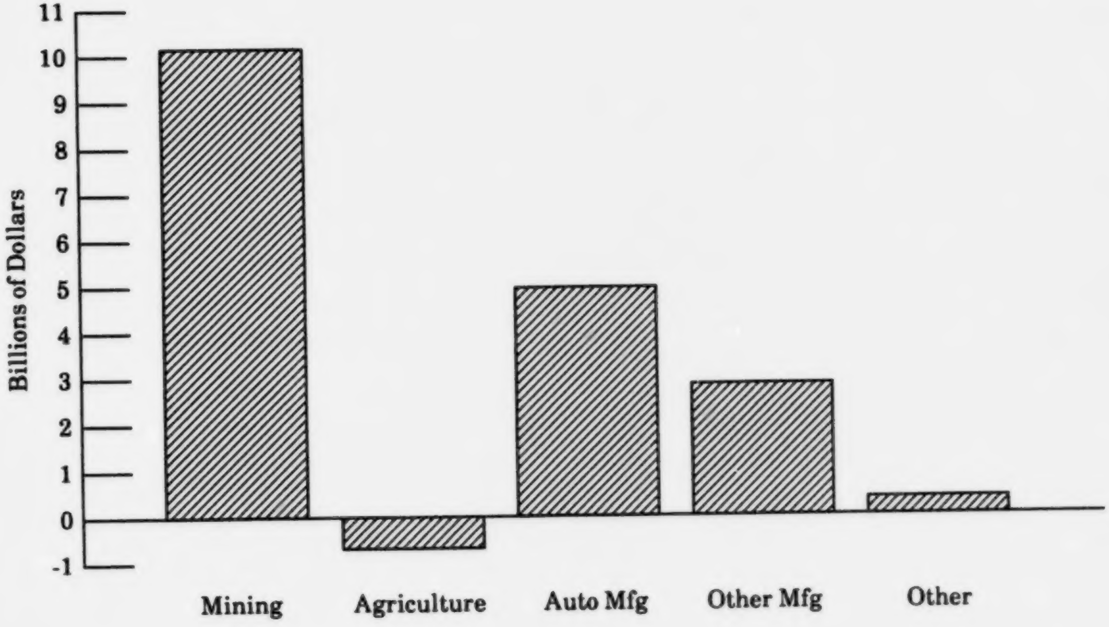
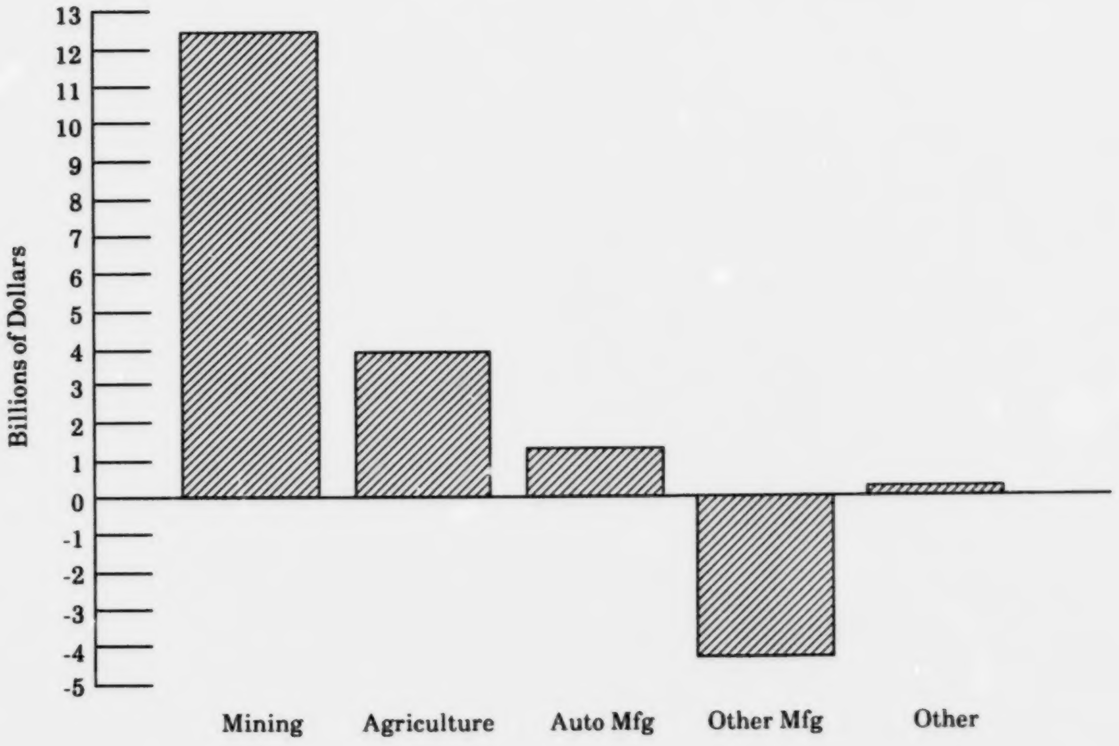


FIGURE 1.8
Canada's World Trade Balance by Sector 1985
(Exports less Imports)



Chapter 2:

Consequences of Protectionism

> I don't know what effect they will have upon the enemy, but by God, they frighten me!
>
> (The Duke of Wellington (1769-1852),
> upon viewing a detachment of troops
> sent to his aid on the battlefield)

In the absence of interference by government, the pattern and direction of a country's international trade are determined by its comparative advantage. One of the most widely accepted notions in all of economics is that allowing trade to proceed according to comparative advantage, that is according to the relative costs of producing goods in different locations, will benefit both less efficient and more efficient countries. The British economist David Ricardo recognized the basis for the gains from international trade in the early nineteenth century:

> Two men can both make shoes and hats, and one is superior to the other in both employments; but in making hats he can only exceed his competitor by one-fifth or 20 per cent and in making shoes he can exceed him by one-third or 33 per cent; will it not be for the interest of both that the superior man should employ himself exclusively in making shoes and the inferior man in making hats? (Ricardo)

As the example suggests, specialization allows the country to increase the real value of its total national output, and trade allows it to exchange its output for the products in which foreign countries are the relatively less costly producers. This chapter inquires into the consequences of government action to inhibit this process – the consequences of trade protection. It makes the following points:

- Canada continues to look to exports as a vehicle for growth and prosperity, and to trade protection as a means of maintaining employment.
- Protectionist measures (tariff and non-tariff barriers to trade) on balance impose substantial costs on the protected country.
- Tariffs result in a decline in the economic welfare of society since the gains to domestic producers and the government are more than offset by the welfare loss experienced by the consumer. Additionally, a tariff leads to inefficient production through a misallocation of the nation's economic resources from more productive industries toward the protected sector.
- Quotas, bilateral quantitative restraints, discriminatory government procurement practices and domestic content requirements generally inflict greater costs on society than do tariffs. In addition to imposing higher prices on consumers and leading to inefficient resource allocation within the economy, these protective measures limit the purchasing options of consumers and result in a welfare loss to society that is greater than the loss resulting from a tariff.
- Contingent protection systems, in the form of anti-dumping duties, countervailing duties and safeguard measures, can be justified in theory, but in practice often lead to harassment and uncertainty for exporters; product standards, customs entry procedures and a wide range of other measures can also have these detrimental effects.
- Subsidies are generally preferable to overt forms of protection in terms of their impact on national economic welfare. However, selective subsidies, directed at particular companies or industries, and export subsidies, directed at exporters only, do impose costs and lead to distortions similar to those of tariffs and other trade barriers.
- The costs and benefits of trade protection are not evenly distributed across Canada; the benefits, mainly to producers, are concentrated in central Canada, while the substantially higher costs to consumers are spread out across the entire country.

- Trade protection affects more than just the current performance of the economy. When prices rise and real incomes are eroded, consumers reduce their spending. In the face of a declining market, producers are likely to postpone or stop any new investments in plants and production facilities. At the same time, a trade barrier in one market attracts investment to the protected industry and away from those industries where the investment has a greater potential value to society. In this way, trade barriers encourage future as well as current inefficiency.
- Targeting through subsidies and trade protection places a burden on both the domestic and international economy by distorting prices, resource allocation and trade patterns. There is little doubt that a government can artificially build up an industry, but for what gain and at what cost to taxpayers and consumers?

Canada has a long history of protectionist trade policies. As in most countries, trade policy was one of the earliest types of measures to be employed in the pursuit of national economic objectives. Following the abrogation by the United States of the pre-Confederation "Reciprocity Treaty", which provided for limited bilateral free trade, the high tariffs of the National Policy of 1879 were viewed as an important part of the process of nation-building north of the 49th parallel. Canada continued this bascially protectionist trade policy for more than fifty years. In the early 1930s, still higher tariffs were imposed on imports in step with the international trend toward protectionism that contributed to the Depression.

Since the mid-1930s, Canadian trade policy has gradually been liberalized, first on a bilateral basis with the United States and then multilaterally under the auspices of the GATT. International trade has played an important part in national economic growth throughout the post-war period. Nonetheless, new forms of trade restrictions have emerged over time, particularly in the past 15 years. Canada continues to look to exports as a vehicle for growth and prosperity, and to trade protection as a means of maintaining employment. During periods of strong demand for Canada's resources, the costs of protection, notably in the manufacturing sector, have often been overlooked, while in periods of recession, the apparent stability and security provided by protectionist measures has predominated. A greater understanding of who bears the burden of such actions is imperative; as well, it is crucial that there be a better understanding of the alternative policy instruments available.

Economic Effects of a Tariff

The most widely used trade policy instrument is the tariff. A tariff is, in effect, a sales tax imposed exclusively on imported goods. It can be set either as a percentage of the value of the import (an ad valorem tariff) or as a lump sum payment on each unit of the imported good (a specific tariff). The economic effects of a tariff are usually analyzed by contrasting the situations that exist in a market before and after it has been imposed. Regardless of the type of tariff used, a tariff, like a sales tax, causes the price of an imported good to rise. As the price of the imported good rises, consumers will start to switch to the domestic good, and domestic producers, encouraged by higher demand, also raise their prices. Assuming the domestic firms were previously producing as much as they could profitably sell, the higher prices allow them to cover the increased costs they incur in the production of higher volumes using their existing plant and equipment.

Overall, in competitive markets where imports and domestic goods are very similar, the price of both the imported and domestic goods will rise by the same amount as the tariff. The higher price discourages consumer demand and the total amount of the good purchased falls. However, domestic production increases as the decline in total consumption is absorbed by the falling level of imports. The increase in domestic production of the good is not as great as the decline in the level of imports of the good.

Consumers obviously lose, because they subsequently pay a higher price for the good and thus purchase less. In effect, their real income has been reduced because the price of both the imported and domestically produced good has risen. Domestic producers and workers in the industry gain from the tariff because they are now achieving greater levels of output. The government, it would appear, also benefits from the tariff as it collects not only the tariff revenues but also more taxes from producers and workers in the protected industry. Some casual observers might conclude that the tariff is beneficial to the country as a whole. Although consumers pay more, tax revenues, production and employment in the protected industry are all higher.

The conclusion, however, is wrong. It presumes that the benefits captured by domestic producers, workers and the government in the protected industry exceed the costs imposed on consumers. More important, it presumes that imposing a tariff for one product does not affect other markets and industries. By ignoring the interdependent nature of the economy, it assumes that production and costs in other industries are not affected by the tariff in one industry, that workers who gain jobs in the protected industries would not have been employed in other industries, and, most important, that the use of economic resources such as labour, capital, materials, land and so forth in other industries is less productive or valuable.

Costs and Benefits of a Tariff

The costs and benefits of tariffs, or any other trade barrier, are assessed in terms of their effects on the economic welfare of individuals and groups. Economic welfare is defined as the satisfaction or value that an individual, group or country derives from undertaking an economic activity, for example producing or consuming a product. Clearly, the economic welfare of consumers has been reduced.

The reduction in total purchases of the good is usually referred to as the *consumption effect* of the tariff. It involves a direct economic welfare loss to consumers in terms of their having less of the good to enjoy.

Part of the total welfare loss suffered by consumers however, is offset by gains to other groups in society. The government collects part of the higher cost to consumers in the form of tariff revenues from imports of that good. As these revenues can be used by the government for the benefit of citizens, this cost to consumers cannot be viewed as an outright loss to society. Instead, this amount is a transfer from consumers to the government and it is commonly referred to as the *revenue effect* of a tariff.

Domestic producers also gain at the expense of consumers. As indicated earlier, the tariff encourages domestic producers to raise both prices and production. At the new higher price, the increase in revenues from the higher level of output is greater than the increase in the costs incurred in achieving this high volume of output, which leaves domestic producers and workers in the industry with a net benefit from the tariff. This benefit is usually referred to as the *redistribution effect* of the tariff, as it involves the transfer of wealth from consumers to producers.

The gains transferred to domestic producers by the redistribution effect and transferred to the government by the revenue effect are not, however, large enough to offset the loss imposed on consumers. There are two reasons for this. To start with, the consumer welfare loss from the consumption effect is an outright loss to society. Consumers lose the satisfaction of being able to consume a greater quantity of the good and neither producers nor the government is able to capture this consumer welfare loss in the form of benefits for themselves. A further outright loss of economic welfare results from the misallocation of the nation's economic resources that occurs under tariff protection. To produce additional output after the tariff is imposed, domestic producers in the protected industry require more workers, materials, machinery and so forth. These economic resources must be obtained from other industries, in which output declines as resources are drawn to the protected industry. In other words, the country has gained additional output in the protected sector, but at the cost of lost or foregone production in other industries.

The consequence of shifting the resources from these other industries to the protected industry is a reduction in production efficiency. Efficiency involves getting the greatest value of output from the nation's economic resources. By replacing lower-cost imports with higher-cost domestic goods, the country suffers a reduction in the value of the national output obtained from its economic resources. In short, before the tariff the nation was able to produce the other goods and still consume the protected product by importing from lower-cost foreign producers. With the tariff, the nation produces more of the protected good but less of the other goods, and as a consequence, economic efficiency in the economy is reduced. This reduction in economic efficiency, commonly referred to as the *efficiency effect* of the tariff, is the result of the misallocation of the nation's resources when economic resources are drawn to the protected sector by the tariff.

The economic welfare losses from the efficiency effect and the consumption effect are outright losses to society, paid for by consumers. Thus, while domestic producers and workers in the protected industry gain from the redistribution effect and the government gains from the revenue effect, the nation as a whole loses from the consumption and efficiency effects. These are the direct effects of the tariff.

There are also indirect effects. For instance, while the government may gain higher revenues from the tariff and the higher taxes paid by producers and workers in the protected industry, it loses tax revenue from other industries because their output declines.

More important, tariff protection for one industry can lead to higher production costs for other industries. Should the protected industry require a certain material to expand its output, it may have to bid up the price of this material in order to attract the required amount from other industries. The result is that all industries end up paying a higher price for the material, which reduces the competitiveness not only of other domestic industries also competing against imports but also of export industries. The reduction in the competitiveness of the other import-competing industries and of export industries can cost the nation dearly in terms of lost income and jobs in these industries.

Nor, as some would have, can workers automatically expect higher real incomes as a result of tariff protection. The increase in the price of the protected product reduces real incomes and, while it may be that workers will eventually gain from higher nominal incomes as a result of increased production in the protected sector, this is not automatically guaranteed. In fact, it is just as likely, depending upon the structure of the economy, that labour throughout the economy will suffer from a real income loss when tariffs are imposed.

The above analysis of the economic effects and costs and benefits of a tariff has been frequently disputed. Numerous observers agree that the analysis is too limited because it ignores such factors as economies of scale, large, powerful, market-dominating firms, and product diversity in each market. For instance, the automotive and steel sectors require large-scale production to achieve economies of scale. Likewise, certain markets and industries are dominated by one or a few firms that can and do exert their market power to control and raise the price of their goods above that found in competitive markets. At the same time, competition in numerous industries is not only based on price. Frequently, a product market is characterized by numerous product lines varying in quality, performance and other attributes and consumers choose on the basis of differences in product characteristics as well as price.

Proponents of trade protection argue that these factors change the effects of protection in that the outcomes are different when product diversity, market power, economies of scale and so forth are accounted for. However, as shown later, the costs of protection to a country become even larger when industries are required to produce at large volumes in order to be competitive, when markets are dominated by a few firms, and when competition is based on product diversity as well as price. The general conclusion that trade protection is costly is reinforced.

Non-Tariff Barriers

Tariffs, however, are not the only forms of trade protection used by countries. Indeed, many countries have resorted to other, non-tariff instruments to protect domestic industries. These non-tariff barriers not only impose costs on society similar to those of a tariff, but may also impose additional costs.

The growing recourse to non-tariff barriers is due partially to the past success of the GATT in reducing and binding tariff rates. With slow economic growth, high unemployment and changing international economic conditions fuelling demands for protection, governments have turned to non-tariff barriers to protect and support domestic industries. The major types of barriers employed are global quotas, bilateral quantitative restraints, discriminatory government procurement policies, domestic content regulations, contingency protection measures, domestic industrial subsidies, export subsidies and credits, including aid-tying, product standards and health requirements, and a variety of miscellaneous measures such as the setting of minimum price levels for imports, and mandatory monopoly marketing practices.

Global Quotas

Countries have often used global quotas in cases where the volume of imports of certain products cause or threaten injury to domestic industries. If the rules of GATT are to be obeyed (see Chapter Four below), these quantitative limits on imports must be non-discriminatory among exporting countries. Allocations of the rights to import are typically distributed to domestic importers according to their pre-quota import shares; domestic importers can include individuals, domestic producers of the product, retailers and wholesale brokers as well as pure importers. The GATT requires that global quotas be set for a fixed time period, though it may be extended if the imposing country demonstrates further injury and causality in accordance with the GATT procedures. As shown by the list in Table 2.1, a number of countries have invoked Article XIX safeguard actions between 1978 and 1982 in an effort to provide protection to their domestic industries.

The short-term impact of the quota in a competitive market is almost identical to that of a tariff in terms of market distortions and the allocation of resources. One of the main differences is that governments do not collect revenues under a quota; rather, holders of the quota collect rents. In addition, the loss to the consumer is greater with quotas than with tariffs.

Over time, the net costs of the quota can rise. As the economy grows and incomes rise, the demand for goods will increase. With a tariff, the increase in market demand can be filled by both imports and enlarged domestic output. However, a quota restricts consumption to the capacity of domestic production,

TABLE 2.1
invocation of GATT Article XIX, 1978-82

Country	Product	Measure	Year Introduced (Terminated)
Australia	Wool worsted yarns	Tariff quota	1978
	Double-edged safety razor blades	Quantitative restriction	1978 (1982)
	Sheets and plates of iron and steel	Quantitative restriction	1978 (1980)
	Certain trucks and stackers	Quantitative restriction	1980 (1982)
	Files and rasps	Quantitative restriction	1978
	Hoops and strips of iron and steel	Tariff quota	1982
Canada	Footwear other than canvas and rubber	Quantitative restriction	1980 (1981)
	Nonleather footwear	Quantitative restriction	1981
European Community	Preserved mushrooms	Quantitative restriction	1978
	Yarn of synthetic fibres (United Kingdom only)	Quantitative restriction	1980 (1980)
	Cultivated mushrooms	Quantitative restriction	1980
Iceland	Furniture, cupboards and cabinets; windows and doors	Import deposit	1979 (1980) 1982
Norway	Various textile items	Quantitative restriction	1979
Spain	Cheeses	Quantitative restriction	(1980) (1980)*
United States	CB radio recivers	Tariff	1978 (1981)
	High-carbon ferro-chromium	Tariff	1978 (1982)
	Lag screws or bolts	Tariff	1979 (1982)
	Clothespins	Quantitative restriction	1979
	Porcelain-on-steel cooking ware	Tariff	1980
	Preserved mushrooms	Tariff	1980

Notes: Only indicates measures notified to GATT.

Asterisk (*) indicates that the measure was replaced by an export restraint arrangement.

Source: GATT.

typically resulting in a situation where the final outcome is higher domestic production and a higher domestic price than would be the case with a tariff. Since the increase in total demand cannot be met by additional imports, the higher demand spills over into the home market and places new upward pressure on domestic prices. Domestic producers increase their output and consumers reduce the quantity demanded until the market balances.

The costs to consumers and to society as a whole are generally greater with quotas than with tariffs. The benefits to domestic firms and workers are also generally greater, at least initially, and of course holders of quota allocations benefit as the right to import begins to acquire a value in its own right. Perverse effects often occur, however, when quotas encourage importers to upgrade their mix of purchases. Since the quantity of imports is restricted and the profit margins may be higher on the higher-quality, higher-priced items, those holding quota allocations can maximize their profits by switching their imports to higher-priced items. This can have adverse effects on domestic producers if their product lines are concentrated in those same higher-end market niches.

Developed countries often impose quotas to protect domestic industries from low-price producers of items such as clothing and footwear. Many low-income individuals and families depend on these lower-priced items to help stretch their limited budgets. By raising the price of these low-end products, both tariffs and quotas act as a regressive tax. In the case of quotas, the upgrading effect reduces the variety of products and range of prices available to consumers. Low-income consumers are therefore hit particularly hard by quotas.

In markets dominated by one or a few firms, a quota is likely to result in higher prices and a lower level of domestic production in the home market than would be the case with a tariff. Consequently, the costs to consumers are even higher and the benefits to society in terms of higher domestic production and employment in the protected industry are lower. This occurs because the quota frees powerful domestic firms from price competition by restricting the quantity of imports. Freedom from import price competition enables them to dominate the home market and earn above-normal profit margins by controlling the amount of domestic products supplied to domestic consumers. With a tariff, large firms cannot raise their price above the tariff-inclusive price of imports because domestic consumers can purchase additional imports. Consumers do not have this option when a quota is used. Consequently, a quota not only yields rents to quota holders but also allows domestic firms with market power to earn above-normal profits.

It is not just domestic producers with market power that can use a quota in ways a tariff cannot be used to control a market. Retail chains are frequently major holders of quota allocations – for example, in Canada, the major retail chains hold approximately 35 per cent of the footwear import quota allocations. With control of a major share of the quota allocations, large retail chains can enhance their market power in the retail sector by making it difficult for small independent retailers to obtain imports to fill out their product selections.

For society, quotas are thus a less desirable form of trade protection than tariffs. Quotas not only impose costs similar to tariffs but also burden society with additional costs. Quotas, however, are attractive to those seeking trade protection because the benefits to the protected group are larger and are usually hidden. Whereas consumers are able to point to a 23.4 per cent tariff on footwear, working out the actual "cost" of quotas on imported footwear products is much more difficult.

Bilateral Quantitative Restraints

In recent years the use of bilateral quantitative restraints, which discriminate against particular countries and are therefore illegal under GATT rules (see Chapter Four below), has increased dramatically. A study by Aho and Aronson (1985) estimated that, on a value basis, more than 90 per cent of safeguard actions (i.e., those taken to deal with injury to domestic industries from fairly traded – as opposed to dumped or subsidized – imports) are now handled outside of the GATT. Table 2.2 gives an idea of the extent of these measures. There are numerous types of bilateral import quantity controls, including orderly marketing arrangements (OMAs), voluntary export restraints (VERs), and other bilaterally negotiated arrangements. The Multifibre Arrangement (MFA) is a multilateral umbrella agreement for a large number of bilateral restraints (see Chapter Five).

The effects of such bilateral restraints are similar to those of global quotas in many respects. Consumers pay higher prices, inefficient resource allocation is encouraged in the protected country, and the additional hidden costs are likely to appear. Bilateral quantitative restraints can also lead to the perverse effect of encouraging importers to move into higher priced or higher quality lines. In the case of the VERs on Japanese automobiles negotiated by both Canada and the United States, this took the form of more standard features and more luxury models.

TABLE 2.2
Import Restrictions on Key Industries in Selected Countries

Country	Type of Restriction	Duration
A. AUTOMOBILES		
United States	VER/Japan: 1.68 million cars (increased to 1.85 million, extended for period April 1, 1984-March 31, 1985)	1981-
European Community	VER/Japan: does not supercede ongoing bilateral agreements implemented by individual member countries	1983-February 1986
West Germany	VER/Japan: growth limited to 10 per cent annually	mid-1981-June 1984
France	VER/Japan: 2.5-3 per cent of domestic market	1977
Italy	VER/Japan: 2,200 units	1968- (may precede 1956)
United Kingdom	monitor imports/Japan: prudent market agreement (a private sector agreement carried out by two trade associations and supported by the government) set at 1977 level, or 11 per cent of domestic market	1975-
Canada	VER/Japan: varying units permitted	1981-April 1984
Japan	discretionary liscensing	1968-

TABLE 2.2 (Continued)

Country	Type of Restriction	Duration
B. STEEL		
United States	*Carbon*	
	VRA/Japan, EC	1969-1975
	arrangement/EC	late 1982-October 1985
	Specialty	
	OMA/Japan	early 1976-early 1980
	quotas/Sweden, EC, Canada, others	early 1976-early 1980
	additional tariffs and quotas	late 1983-July 1987
European Community	*Carbon*	
	BPS or VER/14 major suppliers	1977-
	Specialty	
	BPS or VER/14 major suppliers	1977-
C. TEXTILES		
United States European Community Canada	long-term arrangements, extended twice	1968-1973
	Multi-Fiber arrangement (arrangement regarding International Trade in Textiles of 20 December 1973, as extended 14 December 1977 and 22 December 1981)	1974-

TABLE 2.2 (Continued)

Country	Type of Restriction	Duration
D. FOOTWEAR		
United States	OMA/Taiwan, South Korea: non-rubber footwear	1977-mid-1981
France	VRA/Taiwan, South Korea: non-rubber footwear	1981-
Italy	OMA or VER/Poland, South Korea: rubber footwear	1979-
United Kingdom	OMA/Taiwan, South Korea: non-rubber footwear	late 1977-
	quotas: non-rubber footwear	1979-
Canada	quotas (general footwear restraint)/ third world nations: leather footwear	1978-1985
E. CONSUMER ELECTRONICS PRODUCTS		
United States	OMA/Taiwan, South Korea: color TV receivers	1979-mid-1982
European Community	quantitative restrictions/Japan: video-tape recorder, color TV tubes	1983-February 1986
France	quotas, discretionary liscencing/global	1980-
Italy	quota/Japan: radio, TV communications equipment	1973-

TABLE 2.2 (Continued)

Country	Type of Restriction	Duration
United Kingdom	quotas/Taiwan, South Korea: radio, TV communications equipment	1980-
F. MOTORCYCLES		
United States	tariff-rate quota	early 1983-April 1988
European Community	VER/Japan	1983-February 1986
France	surveillance/Japan: cylinder capacity less than 50 cm^3	1982-
Italy	quota/Japan: also included bicycles	1980-

Notes:

BPS: basic price system
OMA: orderly marketing arrangement
VER: voluntary export restraint
VRA: voluntary restraint agreement

This table considers only those European Community restrictions affecting trade with third countries.

Source: Office of the U.S. Trade Representative, *Annual Report of the President of the United States on the Trade Agreements Program* (Washington: USTR, 1983), P. 57.

There are, however, two important differences between global quotas and bilateral volume restrictions. The first is that, unlike the situation involving a global quota, it is the government of the *exporting* country that controls the allocations of the product shipped to the foreign market under an OMA or VER. Consequently, it is the foreign government, foreign exporters, or both, depending on how the export allocations are distributed among firms, who collect the rents created by limiting the quantity of exports from that country. This is an additional cost to the country imposing the restriction, because the profits are exported and no taxes are recovered on them. The second difference is that by limiting imports from selected exporters, bilateral quantity controls permit domestic consumers to switch their purchases to imports from an uncontrolled country. When consumers exercise this option, trade is diverted away from the controlled countries, who are usually the most efficient lowest-price producers. In other words, bilateral quantity controls protect not only the inefficient and uncompetitive domestic producers but also the inefficient and uncompetitive foreign producers in third countries. Consumers still pay higher prices since the alternative import sources are more costly, but the protection afforded to domestic industries may be less than with a global quota. The trade diversion encouraged by bilateral quantitative restraints can also have additional negative effects in the long-run by distorting the incentives for investment in export production in the protected industry world-wide.

Discriminatory Government Procurement Policies

Most governments, including those at provincial, state and municipal levels, discriminate between domestic and foreign producers when purchasing their goods and services. While such measures are often linked to national security reasons, governments also discriminate in non-defence purchases in order to protect local firms and workers. Various methods are used to minimize the access of foreign producers to the domestic government market. They generally include price preferences for domestic producers, outright purchasing bans on foreign-made products, pre-selection lists of acceptable sources, non-public tendering or discount tendering where points are earned for the degree of domestic content in the tender. In many instances, foreign producers are precluded from public sector markets because many purchasing policies and administrative practices are not publicly known or readily accessible.

In the last two decades, governments have become important purchasers of non-defence goods, particularly in products such as office furniture, computers and office equipment. Until the Tokyo Round negotiations, the GATT did not prohibit governments from being selective in their non-defence purchasing decisions. During the Tokyo Round, a number of the GATT members, including Canada, signed the Code on Government Procurement. This Code requires equal opportunities for foreign producers to bid on contracts exceeding $200,000 for those federal government departments and agencies identified under the Code. (Chapter Four discusses the Code in more detail.) For Canada, it is estimated that up to one-sixth of the $70-80 billion in government purchasing (federal, provincial and local) has been opened to international bidding. Equally important, Canada's access to foreign government markets has also increased dramatically.

Many individuals and groups argue that government purchases that favour domestic suppliers confer great benefits to them and to the national economy. This is, however, largely a myth, especially if the industry is competitive. Consider the case where a government decides to ban imports in its purchases. (The Canadian federal government has administrative guidelines prohibiting purchases from abroad of a number of goods such as footwear, clothing and furniture.) The ban on government imports leads the government to divert all its purchasing to domestic producers, which encourages them to raise their prices in the face of the increase in demand, and allows them to avoid some of the other pressures of the marketplace (e.g., technological innovation and product design). As the price of the domestic product increases, private consumers switch to the now relatively lower-priced imports. The drop in domestic sales to the private sector offsets the increase in sales in government purchases, and the gains to the domestic industry from higher government purchases are offset by the loss of private sector purchases. While an outright ban of government imports is the most extreme form of discrimination, the fundamentals of the analysis do not change when other methods are examined.

Government purchasing policies are relatively ineffective tools of protection because they only apply to the government segment of the market. Unless the government is the only major buyer of a product, even large price preferences and highly selective tendering may offer few benefits to the industry. And these benefits do not come without costs to society in the form of higher taxes.

Government purchasing policies are often used to support industries that require large production runs to achieve economies of scale. There is little doubt that the government purchases can be used to provide the initial market for such an industry to grow and mature. It may be that the long-term benefits of helping this industry become established outweigh the short-run costs to society. However, this possibility needs to be balanced off by the equally, if not greater, likelihood that once the government market is opened up, the industry will be unable to cope with direct competition. The government could soon find itself buying products it does not need because of political pressure, and the domestic industry becomes, for all intents and purposes, a ward of the state, with all the attendent costs to society.

In Canada, the question of provincial purchasing policies has received considerable attention as one of the many factors contributing to a balkanized Canadian economy. Inter-provincial purchasing discrimination can lead to more jobs and higher output and income in a given industry in the province imposing such discrimination; hence the political and economic appeal of such measures is apparent. However, the costs to firms and workers in other regions of the country in terms of lost jobs and lower output and income represent the negative side effects or externalities borne by the rest of the country. When production falls in other provinces, so do the income and employment levels. If industries in the discriminating province are dependent on sales to other provinces, then the reduction in income in the other provinces as a result of discrimination can adversely affect regional export sales. In this instance, provincial purchasing policy backfires on the discriminating province.

Domestic Content

During the first half of the 1980s, the Canadian and U.S. automobile sectors (assembly and component manufacturers) lobbied strenuously, albeit unsuccessfully, for domestic content regulations to protect them from foreign competition, particularly from Japan. They argued that companies selling in the domestic market should also set up production facilities there. The domestic content policies of Australia, New Zealand, Spain, most Latin American countries and numerous other Third World countries were pointed to as examples that Canadian and U.S. governments should follow.

Most domestic content schemes specify the use of domestically produced components or materials and/or the fulfillment of specific domestic value-added requirements. For instance, a foreign company selling in the domestic market may be allowed to import parts and vehicles duty free if it maintains a certain ratio of domestic production and value-added to its overall domestic sales. The advantage to the foreign company is that it can avoid paying tariffs on imports but can still charge domestic consumers a price above the international price. The tariff continues to act as a wedge between the domestic price and the world price, but instead of the government collecting tariff revenues, the participating company is able to capture those revenues. Some of these revenues are then used to subsidize the domestic production required to meet the content conditions. In other words, the government transfers the right to collect the tariff revenues to the companies in exchange for higher domestic value-added and production. This is essentially what the Canada-U.S. Automotive Products Trade Agreement of 1965 (known as the Auto Pact) is all about.

In Canada and the United States, the recent domestic content proposals involve the direct application of quotas to companies, based on each company's content performance. The North American industry is therefore asking to be freed from any price competition from overseas. One study estimated that, had the U.S. proposal been implemented, it would have raised automotive prices by 10 per cent and cost American consumers $18 billion (U.S.) per year; further, each job gained in the automotive sector would have entailed up to five jobs lost elsewhere in the U.S. economy (Wharton, 1983). No comparable official study has been undertaken for the Canadian proposal, but it is likely that costs to consumers would have climbed to $1 billion, with the jobs gained in the automotive sector more than offset by jobs lost in other industries.

In the first instance, the automotive content proposals would act as a quota, except that the quota allocations would be given to the automotive companies based on their content performance. Consumers would lose the consumer surplus, automotive companies would gain producer surplus plus rents associated with holding the quotas, and the economy would suffer outright losses from the efficiency and consumption effects. Part of the rents would be lost to inefficient domestic production resulting from the need to meet the domestic content requirements. In addition, the costs to consumers and the national economy could be expected to grow over time just as in the case of normal quotas. Likewise, since the domestic automotive company and unions in North America hold significant market power, they are likely to use the quota to exert their market power and further raise their profits and incomes. Content rules based on trade protection and not on efficiency would also induce investment – both domestic and foreign – in the Canadian and U.S. automotive sectors. This draws investment funds away from more productive investment opportunities in both North America and the rest of the world, resulting in inefficient resource allocation in Canada and the United States.

Domestic content requirements reduce significantly the competitive pressures on the automotive components industry because they allow vehicle assemblers to pass on to consumers the higher costs of components. If only vehicle production is protected, then domestic vehicle assemblers would purchase parts and components from the best sources in terms of price, quality and performance. By protecting both levels of automotive production, content requirements hit the economy twice: once at the components and parts level, and again at the vehicle assembly level. In short, the losses to society would escalate, as the economic costs of inefficient production and higher prices in component production are passed on and added to the costs of inefficient production and higher prices in the vehicle industry.

Of all the forms of trade protection, domestic content regulations are probably the most costly. Not only do content requirements encourage inefficient production at two levels but they also stifle adjustment to changing global market conditions. To date, content laws in Canada have only been advocated or implemented in the automotive sectors, which is usually one of the most profitable, high-paying industries in the economy. However, content legislation is becoming an attractive option for other sectors, mainly because of its potency in protecting a domestic industry from foreign competition and in allowing domestic producers and workers to earn high incomes. The rest of society, unfortunately, pays a high bill for the gains to an industry protected by content laws.

Contingent Protection

Anti-dumping duties, countervailing duties and safeguard measures are commonly referred to as contingent protection. There is growing concern regarding the use of these measures to curb or harass certain imports, as it raises the risk and uncertainty of importing. While the basic concepts of GATT rules and Canadian legislation in the area of contingent protection will be dealt with in detail in Chapters Three and Four below, a number of points will be noted here.

There is ample justification in terms of both economic theory and political necessity for systems of contingent protection and unfair foreign trade practice. Both dumping—or selling for export at prices lower than in domestic markets—and subsidization can be used (by foreign firms and governments, respectively) to drive out or inhibit competition so as to establish a dominant market position from which to exert a degree of monopoly power. Safeguard measures, which are in theory to be used only temporarily in cases of sudden and unforeseeable surges in imports of particular products, are necessary to encourage governments to commit themselves to trade liberalization.

The problem, however, is not in the logic of having defensive tools but in their operation and application under domestic law. As Grey (1982) argues, "the existence and extent of dumping and the existence of injury are difficult matters to establish". (p. 34) Likewise, determining what is a subsidy often creates major problems when international agreements and domestic legislation are being drafted. Inadequate determination can give rise to major concerns about the meaning, intent and usage of phrases such as "material injury, serious injury and causality".

Many of the concerns over the use of contingent protection as a form of overt trade protection are directed against the United States. As Canadian exporters of lumber and steel have learned, the legal costs of defending their interests in U.S. anti-dumping or countervailing cases are high, even where U.S. petitions for contingent protection have ultimately failed. American firms and unions have learned to make greater use of U.S. trade remedy laws to weaken competition from foreign exporters. In recent years, Canadian exporters of lumber and fish have been among those most severely harassed in this way by the repeated launching of petitions for import relief. It has been argued in both the United States and Canada that the very existence of these systems amounts to a non-tariff barrier, since they create continuing uncertainty for exporters. Harassment and uncertainty may lead some Canadian companies to decide that, although it makes economic sense to produce and export from Canada, it may now be more prudent to locate either existing or new operations in the United States.

While most of the attention is currently directed at U.S. laws, the United States is by no means the only country where domestic producers and workers are using anti-dumping and countervailing laws as a device to obtain overt trade protection. The problem of preventing domestic interests from using a defensive protective device as an overt or offensive weapon of trade protection remains a major concern for the GATT.

Domestic Industrial Subsidies

Over the last twenty years, government intervention in economic activity has become widespread, and support to domestic industries through the use of subsidies has been a major instrument of this intervention. The term "subsidy" generally refers to a government policy that reduces a producer's costs of developing, producing, or distributing a product relative to the costs of other producers of that good. The other producers can be either domestic or foreign companies and the subsidy program provides the subsidized producer with an "artificial" competitive advantage.

A subsidy can take many forms, and the objectives of different subsidy programs can vary considerably. Governments can provide direct cash grants to companies to subsidize the costs of production (for example, the hiring and training of workers, or the purchasing of capital equipment), to locate in a specific community or region, or to undertake research and development. Alternatively, governments may use tax breaks or tax credits to encourage any of these activities. Many governments provide low-interest loans or loan guarantees to their domestic companies, something which significantly reduces the financial costs of undertaking new investment projects.

Companies can also benefit from cost reductions through government regulations. For many years, the Canadian and U.S. governments have kept their domestic energy prices below the world price, providing their industries with a cost advantage over foreign producers paying world prices. While the benefits of below-market energy prices have disappeared, Western Canadian wheat farmers continue to benefit from lower rail transportation costs under the Western Grain Transportation Act.

The variety and extent of subsidization can be significant, as suggested by Table 2.3, which depicts Canadian subsidies to domestic industries. Unlike tariffs, quotas and other border controls, subsidies do not affect the price of imports. Instead, they allow domestic producers to either set a price below that which would have prevailed in the absence of the subsidy, or produce a higher quantity of output at the market prices. Subsidies however are not costless. They represent a transfer of resources (wealth) from taxpayers to domestic industries.

Unlike quotas or tariffs, subsidies may not always distort a country's trade or production patterns. For example, if a subsidy grant or a tax break for investment or for R&D is available to all industries, then it will have minor, secondary impacts on the composition of a country's trade. A regional subsidy may simply result in a company locating a plant in one region rather than another. Likewise, a labour subsidy may encourage greater use of labour-intensive production methods with only a minimal effect on the total level of domestic production and hence trade.

TABLE 2.3

Subsidies to Canadian Industry: 1978, 1981, and 1984[1]

(millions of current dollars)

Industry	Direct Current Subsidies[2]			Conditional Indirect Subsidies[3]			Capital and R&D Subsidies[4]			Total Subsidies		
	1978	1981	1984	1978	1981	1984	1978	1981	1984	1978	1981	1984
Agriculture	649.47	1,229.37	436.52	473.15	566.03	643.75	39.44	93.60	36.69	1,162.06	1,889.00	1,116.96
Forestry	4.07	74.56	14.74	7.73	2.18	2.45	0.85	32.00	3.62	12.65	108.74	20.81
Fishing, Hunting and Trapping	19.50	78.96	183.88	2.54	14.17	3.72	6.18	12.44	16.19	28.22	105.57	203.79
Petroleum and Gas Wells	39.52	66.77	8.83	n/a	32.93	92.63	10.50	101.02	24.99	50.02	200.72	126.45
Mining	19.28	67.61	1.67	4.38	698.30	0.00	37.33	1.17	1,737.56	60.99	767.08	1,739.23
Food and Beverage	133.53	174.71	123.16	12.61	18.47	16.15	28.18	18.48	37.89	174.32	211.66	177.20
Rubber	2.12	3.54	2.73	0.97	1.22	1.37	7.96	5.80	19.85	11.05	10.56	23.95
Textiles, Leather and Clothing	7.86	11.95	9.22	1.63	1.93	2.17	9.67	19.15	40.01	19.16	33.03	51.40
Wood and Paper Products	21.78	69.83	36.78	35.02	39.69	79.06	59.17	146.20	116.23	115.97	255.72	232.07
Primary Metal Products	62.09	18.68	4.80	2.13	2.62	2.95	31.73	21.60	11.63	95.95	42.90	19.38
Metal Fabricating	8.53	22.55	12.64	1.22	2.24	2.09	12.57	24.43	30.21	22.32	49.22	44.94
Machinery and Equipment	3.29	6.73	6.64	0.35	0.80	0.69	28.09	40.01	43.71	31.73	47.54	51.04
Transportation Equipment	77.20	83.89	28.04	1.13	1.76	1.77	63.29	152.12	181.05	141.62	237.77	210.86
Electric Products	3.07	6.25	4.74	0.64	0.80	0.90	35.25	77.42	67.27	38.96	84.47	72.91
Non-metal Mineral Products	2.63	8.72	1.78	1.07	1.33	1.50	9.16	3.78	9.21	12.86	13.83	12.49
Petroleum/Chemical Products	4.66	8.78	33.47	2.80	3.49	3.93	44.75	20.91	27.61	52.21	33.18	65.01
Other Manufacturing	3.70	8.00	3.39	1.28	1.67	1.86	8.74	18.25	13.96	13.72	27.92	19.21
Services	1,745.82	3,002.25	1,760.35	n/a	1.60	16.51	16.50	571.62	714.25	1,762.32	3,575.47	2,491.11
Total	2,808.12	4,943.15	2,673.38	548.65	1,391.23	873.50	449.36	1,360.00	3,131.93	3,806.13	7,694.38	6,678.81

TABLE 2.3
(Continued)

Notes:

1. This is the pre-tax value to the industry. Most subsidies are taxable, consequently the net value to the producer is lower. Estimates for 1978 and 1981 include federal and provincial grants; estimates for 1984 *do not* include subsidies from provincial governments.

2. Direct current subsidies are current subsidies which are paid directly to the industry benefiting from the subsidy. Included in the estimates are all federal and provincial current production subsidies provided in the form of grants for purposes of subsidizing income deficiencies, labour inputs, other current inputs, and transportation and other distribution costs.

3. Under certain programs, the industry directly receiving the subsidy – the recipient industry – is not the industry ultimately benefiting from the subsidy – the beneficiary industry. When the recipient industry does not retain the subsidy but passes it on fully and exclusively to a second, specifically targetted industry, then the latter (beneficiary) industry is provided a conditional indirect subsidy. In certain instances, a conditional indirect subsidy is provided through government regulations. Included in the estimates are transportation subsidies provided under the Maritime Freight Rates Act, the Atlantic Region Freight Assistance Act, the lower postal rate for Canadian magazines periodicals, and the Crows Nest Pass Agreement.

4. Capital subsidies are grants paid to industries to subsidize the construction of buildings and facilities, the purchase of machinery and equipment, or the undertaking of research and development (R&D). Estimates include the following programs: Regional Industrial Development Act, Defence Industry Productivity Program, Enterprise Development Programs, Regional Industrial Development Act, Defence Industry Productivity Program, Enterprise Development Program, Industrial Research Assistance Program, as well as other, smaller federal programs and, for 1978 and 1981, certain provincial programs.

This is not to say that subsidies cannot be used effectively to protect domestic industries from imports or, as discussed in the next section, to stimulate exports. Frequently, governments target their subsidy programs to specific industries. Many governments, including the Canadian government, provide large cash grants, generous tax breaks, and low-interest loans to industries such as the shipbuilding, aircraft manufacturing, and dairy sectors. When subsidies are provided on a selective-industry basis, then they can and do provide significant protection to domestic industries and result in distortions in the volume and composition of trade. When a government subsidy program provides assistance to a specific industry only, resources are drawn into that industry and away from others, potentially altering patterns of both imports and exports as the subsidized industry competes in domestic and international markets. These distortions and their associated costs can become even greater if domestic subsidies are used to attract foreign investment into industries which would not otherwise locate in the country. Moreover, quantitative import controls may be used to reinforce the effects of subsidy programs.

Selective industry subsidies allow a company or group of companies in one industry to draw economic resources from other industries. As a result, not only do selective subsidies place a burden on the national treasury but they also encourage inefficient use of the nation's economic resources. While consumers are able to avoid higher prices, the economy still suffers from an efficiency effect similar to that of a tariff or quota.

Trade protection is frequently used to achieve a wide range of domestic policy objectives, both economic and non-economic. Regardless of the objective, domestic subsidies are a superior policy instrument because the overall economic cost to society is smaller than for tariffs, quotas and other overt trade barriers. For this reason, domestic subsidies are the preferred policy instrument for diverse national goals such as regional development, labour retraining and adjustment, social progress, cultural development, and national security. However, as argued in subsequent chapters, subsidies are no more justifiable than tariffs or quantity controls for purposes of outright protection of the interests of a particular industry.

Export Subsidies

Unlike domestic subsidies, export subsidies discriminate between shipments to the domestic and foreign markets. In many countries – such as France, Great Britian, Mexico, South Korea, Brazil, and India – there are major tax breaks and credits for exporters, or even outright cash rebates for earning foreign exchange. Export subsidies directly affect trade and can therefore seriously injure industries in the country to which the subsidized product is exported; they can injure as well industries in those other countries that normally export the product.

Owing to their trade-distorting effects, the GATT prohibits the use of overt export subsidies. However, prohibition has not prevented countries from developing other policy instruments to subsidize exports that fall outside the strict wording of GATT rules. For example, in the early 1970s the United States introduced an export tax incentive, which allowed U.S. firms to defer taxes on export income under the Domestic International Sales Corporation (DISC) Program. Throughout the 1970s, over 60 per cent of gross U.S. export receipts were funnelled through DISCs, which in effect allowed companies to subsidize their exports. In 1981, following years of complaints from other countries, the GATT ruled that the DISC program amounted to an export subsidy and hence violated GATT rules. The United States has responded by altering the DISC program and renaming it the Foreign Sales Corporation (FSC) Program. The United States argues that the FSC is compatable with the GATT rules; while other countries, Canada included, have neither agreed nor disagreed, they have indicated that this question should be reviewed.

A more contentious issue in the area of export subsidies is the use of government export credits. As indicated by Table 2.4, most major developed countries provide long-term, low-interest export credits to foreign buyers to enable them to purchase capital goods from the country offering the credit. The Organization for Economic Cooperation and Development (OECD) has attempted for years to control the use of government export credits by defining acceptable interest rates and grace and repayment periods. These efforts have partially succeeded, although certain countries (France, Great Britain and South Korea in particular) continue to use official export credits in an aggressive fashion to support their exports of capital goods. Their actions have prompted other countries, mainly OECD countries, to introduce and strengthen their own official export credit agencies to defend their export market interests from these aggressive actions.

Foreign aid is often used as a subsidy. Numerous developed countries also implicitly subsidize their agricultural and manufactured exports to the Third World by requiring recipients of their aid dollars to spend these dollars in the donor country. These aid dollars are also usually tied to a specific list of products, thereby further reducing the aid potential of each dollar. Some

TABLE 2.4
Lenders and Borrowers of Officially Supported Export Financing

Lending country	Total export transaction financed[1] (U.S. $ million)	Main borrowing countries (and percentage share)
Canada	958.1[2]	Developing countries (61.5), planned economy countries (38.4), newly industrializing countries (0.1)
France	8,621.3[3]	Developing countries (71.4), planned economy countries (15.0), newly industrializing countries (13.6)
Japan	8,170.5[3]	Developing countries (77.2), planned economy countries (11.2), newly industrializing countries (11.6)
United Kingdom	11,051.0[4]	Developing countries (72.4), planned economy countries (5.0), newly industrializing countries (22.0)
United States	2,989.7[2]	Developing countries (87.6), planned economy countries (10.0), newly industrializing countries (12.4)
West Germany	4,859.1[2]	Developing countries (48.4), planned economy countries (38.0), newly industrializing countries (13.4)

[1] Defined as total new commitments of officially supported export financing with a repayment term of more than one year.

[2] Figures reported are for the year 1983.

[3] Figures reported are for the year 1982.

[4] Figures reported are for the year 1980.

Source: Trade Committee Group on Export Credits and Credit Guarantees, Organization for Economic Co-operation and Development.

Canadian industries that have benefitted most from these tied aid subsidies are the railway equipment manufacturers (in the case of aid provided to African countries in the 1970s in the form of locomotives) and the dairy sector (whose surplus skim milk powder is purchased for distribution as food aid).

Whether it is government export credits, aid tying, outright export cash grants or export tax incentives, export subsidies impose direct costs on the subsidizing country and indirect costs on the global economy by distorting international production and trade. Many economists argue that no one should interfere if a country is foolish enough to subsidize its exports. An export subsidy is, in effect, an outright transfer from the citizens of the subsidizing country to the citizens of the purchasing country. In this way, Canadian taxpayers have subsidized the users of the New York City subway system as a result of government assistance for the export of urban transit equipment. Foreign consumers benefit from lower prices, and all of the costs are carried by the citizens of the subsidizing country.

Unfortunately, export subsidies can adversely affect world production, investment and trade, to the detriment of all. Their effects on international relative prices are in fact similar to those of tariff and other trade barriers, in that the price of exports declines in relation to the price of imports under export subsidies, while import prices rise in relation to export prices under tariffs, quotas, and other border measures. Moreover, export subsidies can be used to support predatory actions by domestic firms to drive out foreign competition, or they can be used to prevent foreign firms from entering the international market. If these predatory actions succeed and foreign firms do not subsequently enter or re-enter the industry as the price rises, then not only do foreign countries lose potentially efficient and competitive industries, but also their consumers are likely to pay even higher prices once the predatory firms exert their market power.

Perhaps most importantly, smaller countries like Canada are at a distinct disadvantage in competing with the export credit and export subsidy programs of larger countries. This disadvantage has emerged most clearly in recent years in the context of the subsides paid from the treasuries of the United States and the European Community.

Other NTBs

There are, of course, numerous other types of non-tariff barriers. Product standards and health regulations can be used in a highly restrictive fashion, and are sometimes quite subtle.

In the United States, the Federal Housing Administration made 19-ounce glass the required thickness for FHA-financed housing starts instead of the 18-ounce gauge, beginning in 1963. It was no coincidence that 19-ounce glass was being produced by American companies, and that the 18-ounce glass has been effectively excluded from the U.S. market. The United Kingdom's attempts to use its health regulations to ban poultry and egg imports in 1981 is another example of a non-tariff barrier. The European Court examined the poultry and egg case and declared that:

> Certain established facts suggest the real aim of the 1981 measures was to block, for commerical and economic reasons, imports of poultry products from other (European Community) Member States, in particular from France. The United Kingdom had been subject to pressure from British poultry producers to block these imports. It hurriedly introduced its new policy with the result that the French Christmas turkeys were excluded from the British market for the 1981 season.

The United Kingdom and the United States are by no means the only countries that use domestic standards and health requirements to restrict imports. Canada's electrical standards have long been cited as an obstacle to imports of consumer electrical products. Japan does not recognize foreign product-safety tests; thus time-consuming tests are an additional cost or barrier to a wide range of import products, from automobiles to medical equipment.

Non-tariff barriers are also applied in other manners. In Canada, the Bank Act sets statutory limits on the participation of foreign banks in the domestic market and, at the same time, requires all banks to store and process their records in Canada. The province of Ontario protects its wine industry from other Canadian producers and foreign producers by controlling shelf space and listings in its stores and charging a higher, discriminatory mark-up on imported wines. Just prior to the conclusion of its VER on automobile exports with Japan, Canada instituted a slowdown on customs clearance procedures, which created long delays and represented a major obstacle to Japanese auto importers.

Other countries are equally if not more inventive in applying non-tariff barriers. The Japanese government uses its monopoly control of tobacco product distribution to restrict imports and charge higher, discriminatory mark-ups on imports of tobacco products. France at one point required all imports of VCRs from outside the European Community to enter through Poitiers, a small, inland customs point of entry. The Jones Act in the United States effectively prohibits foreign vessels from shipping goods within U.S. coastal waters. And a complex labyrinth of trucking regulations and border-crossing rules throughout the European Community ensures that the European trucking industry remains fragmented. The net result is often higher costs of moving goods across borders.

In short, the creation and use of policies that restrict trade are only limited by the imagination of those seeking trade protection. Even basic customs procedures can be used to raise the cost of importing by imposing excessive import documentation requirements, arbitrary tariff classification and customs valuation, and lengthy clearance procedures.

Some Estimates of Costs and Benefits

The costs to consumers and to national economies of these measures have been substantial. Table 2.5 lists estimates of the costs of various trade barriers imposed by Canada, while Table 2.6 lists estimates for other countries including Japan, the United States, and the EEC. These reported estimates by no means cover all the quantitative restrictions employed by these countries. Owing to the great difficulty in determining the impact of quotas and bilateral controls, estimates are not always readily available.

Nevertheless, the estimates reported in Table 2.5 are quite indicative of the burdens placed on consumers by protectionism. Frequently, the reported estimates are just the additional costs and benefits of quantitative restraints, over and above those of the tariff. For example, the estimates of costs and benefits of the Canadian footwear quota do not include the costs of the tariff, which is often over 20 per cent for imported footwear items. The estimates for the VER on Japanese automobile exports also exclude the effects of the tariff, currently over 9 per cent. Moreover, not only are the figures cited among the most conservative estimates, but the benefits of the Canada-Japan VER to producers are shared between U.S. and Canadian auto companies, while the costs to consumers are paid by Canadians alone.

Table 2.7 gives a selection of estimates of the combined protection afforded by tariff and non-tariff barriers together. One additional attractive feature of non-tariff barriers for those seeking trade protection is the lack of transparency of the costs imposed on consumers and other industries and the invisibility of

TABLE 2.5
Costs & Incidence of Quotas, Tariffs and Subsidies in Canada
(Millions of Constant 1984 Canadian Dollars)

Sector	Measure	Year	Cost to Consumers	Domestic Producer Gains	Foreign Producer Gains	Tariff Revenue	Production Deadweight Loss	Consumption Deadweight Loss	Aggregate Costs to Economy
1 Automobiles	VER with Japan	1985	191.02	21.12	n/a	n/a	n/a	n/a	n/a
2 Broilers	Quotas	1980	105.33	96.94	0.00	0.00	n/a	n/a	n/a
3 Dairy	Subsidies, quotas	1980	943.25	922.63	0.00	0.00	244.75	41.25	286.00
4 Dairy	Subsidies, quotas	Average [1976-78]	1346.84	1537.21	0.00	0.00	180.09	117.30	297.39
5 Eggs	Quotas	1980	76.73	62.01	0.00	0.00	n/a	n/a	n/a
6 Sugar	Tariffs, Subsidies	Average [1976-78]	46.44	6.02	n/a	39.55	0.01	0.86	0.87
7 Tomato Solids	Tariff	1978	5.12	1.32	0.00	2.31	1.17	0.20	1.40
8 Wheat	Subsidies	Average [1976-78]	-186.49	572.68	0.00	0.00	12.41	3.96	16.37
9 Footwear	Quotas	Average [1978-83]	64.84	n/a	n/a	10.06	n/a	3.85	13.92
10 Garments	Tariff & Quota	1979	708.57	404.92	62.31	140.68	69.28	31.38	162.97
	Tariff Only	1979	407.95	216.94	0.00	159.33	22.29	9.40	31.68
	Bilateral Quotas	1979	300.62	188.13	62.31	-18.65	47.00	21.83	131.13
11 Communication Equipment	Tariff	1978	345.10	172.00	0.00	138.20	60.20	n/a	n/a
Office Machinery	Tariff	1978	157.50	1.20	0.00	149.60	9.90	n/a	n/a
Iron & Steel	Tariff	1978	345.70	375.10	0.00	72.20	81.80	n/a	n/a

TABLE 2.5
(Continued)

Sources:

1 Hazledine & Wigington, *Protection in the Canadian Automotive Market*, Consumer and Corporate Affairs, 1986, (Table 3).

2 Arcus P.L., *Broilers and Eggs*, Technical Report No. E/I 3, ECC/IRPP, 1981, (Table 15, p. 63).

3 Barichello R.R., *The Economics of the Canadian Dairy Industry Regulation*, Technical Report No. E/I 2, ECC/IRPP, 1981, (p.45).

4 Josling T., *Intervention and Regulation in Canadian Agriculture*, Technical Report No. E/I 4, ECC/IRPP, 1981, (Table A2).

5 Ibid. Arcus, Table 64, p. 64.

6 Ibid. Josling, Table A.3(A), Table A.3(B). Table 6 for Prod. & Cons. Loss.

7 Prescott D.M., *The Role of Marketing Boards in Tomato and Asparagus Industries*, Technical Report No. E/I 5, ECC/IRPP, 1981, (Table 4.1).

8 Ibid. Josling, Table A.1(A), Table A.1(B). Also, Table 6, p.24.

9 Moroz & Salembier, *Quantitative Assessment of Footwear Import Quota*, IRPP Discussion Paper, 1985 (Table 16 and Table 19, p.64).

10 Jenkins G.P., *Costs and Consequences of the New Protectionism*, North-South Institute, Ottawa, 1980, (p. 33, 37).

11 Hazledine T., *Costs and Consequences of Protection in 100 Canadian Industries*, Dept. of Employment and Immigration, (Tables 5 & 6).

TABLE 2.6
Costs & Incidence of Market Protection in Other Countries
(Millions of Constant 1984 Canadian Dollars)

Country	Sector	Measure	Year	Cost to Consumers	Domestic Producer Gains	Foreign Producer Gains	Tariff Revenue	Production Deadweight Loss	Consumption Deadweight Loss	Aggregate Costs to Economy
USA	Dairy Products	Quotas	1980	2411.48	***	***	***	***	***	***
	Dairy Products	Quotas	1980	7877.49	***	***	***	***	***	***
	Meat	Quotas & VRAs	1979	2130.99	***	***	***	***	***	***
	Peanuts	Domestic Market Restrictions	1980	321.53	***	***	***	***	***	***
	Sugar	Quotas	1983	945.25	606.74	349.64	0.00	102.66	182.07	634.40
	Automobile (Japanese)	Voluntary Restraint Agreement	1981	1485.99	154.44	1104.22	0.00	0.00	229.29	1333.50
	Steel Products	Quotas	1983	1453.74	646.64	816.47	165.88	0.00	172.19	1154.60
	Apparel	Tariffs	1980	18962.23	***	***	***	***	***	***
	Apparel & Textiles	Quotas	1980	5491.73	***	***	***	***	***	***
	All Textiles	Tariffs	1980	5080.17	***	***	***	***	***	***
	Radios & TVs	Orderly Market Agreement	1980	355.29	***	***	***	***	***	***
Australia	Clothing, Footwear, Drapery	Tariffs	1978	1811.60	***	***	***	***	***	***
EEC	Dairy Products	CAP	1978	35064.20	***	***	***	***	***	***
	Sugar	CAP	1978	6975.10	***	***	***	***	***	***
	Wheat	CAP	1978	8860.30	***	***	***	***	***	***
Japan	Dairy Products	Subsidies	1978	2262.20	***	***	***	***	***	***
	Rice	Subsidies	1978	19982.80	***	***	***	***	***	***

Sources: Tarr and Morkre, *Aggregate Costs to the United States of Tariffs Quotas on Imports*, Federal Trade Commission, 1984.
USITC Publication 1648, *Review of Recent Developments in the US Automotive Industry*, Washington, D.C., 1984.
Protectionism, Threat to International Order, The Impact on Developing Countries, Commonwealth Secretariat, 1982.

the accrued benefits to the protected industry. A consumer can point to a 25 per cent tariff rate, but calculating the price increase from a quota, VER or other non-tariff barrier is difficult.

A point of major importance for Canada is that the costs and benefits of trade protection are not evenly distributed across the country; the benefits are largely concentrated in central Canada, while the costs to consumers are spread out across the country. Canadian trade protection therefore imposes a transfer of resources from consumers in all of Canada to producers (and in some cases to labour) in central Canada. The historical tension between the various regions of the country over trade policy, based largely on differences in industrial structure, continues to be reflected in the mid-1980s in the divergent provincial attitudes towards trade liberalization, particularly in the Canada-U.S. context. The relatively resource-intensive Western

TABLE 2.7
Sectoral Tariff Equivalents of Tariff and Non-Tariff Barriers in Four OECD Markets, 1980*
(in per cent)

Sector	United States	EC	Japan	Canada
Meat (SITC 01)**	46	118	328	52
Cereals (SITC 04)	20	81	175	20
Sugar (SITC 06)	27	31	44	27
Textiles (SITC 65)	68	59	13	39
Iron and steel (SITC 67)	35	43	8	8
Clothing (SITC 84)	79	59	18	39
Footwear (SITC 85)	9	27	16	30

* Approximations only; year of estimation may differ for some products in some countries.

** Standard International Trade Classification.

Source: IMF *Staff Papers* (December 1984, Vol. 31, No. 4).

and Atlantic provinces, although not entirely without their own reservations regarding freer bilateral trade, have voiced fewer substantive concerns than Ontario and Quebec, the traditional centres of the Canadian manufacturing industry. Particular measures, such as the restrictions on imports of Japanese automobiles, have alarmed those Western producers fearful of possible retaliation against their exports.

The provinces do have a direct interest in Canadian trade policy in that many of the non-tariff barriers described above – especially subsidies, government procurement policies and a wide range of regulatory instruments – are applied by the provinces themselves. Provincial government policies can therefore complicate federal initiatives in the area of trade policy, either by adding to the total amount of protection against imports or by erecting barriers to interprovincial trade that place limits on the gains that can be obtained by liberalizing international trade on a bilateral or multilateral basis.

Indirect Costs of Protection

Given that direct costs to society are difficult to measure, indirect costs are often overlooked because they are even more difficult to quantify. Indirect costs refer to costs that are spread throughout the economy, affecting production, jobs and incomes in other industries, both at home and abroad.

As previously outlined, trade protection in one industry can lead to higher prices for production materials, equipment and services, and can result as well in higher nominal wages for labour in other industries and in the economy as a whole. Resources are attracted to the protected industry, because the trade barrier allows the protected industry to cover the increase in production costs through higher selling prices for the good. However, other industries must also pay these high prices for inputs of production. Consequently, the cost competitiveness of other industries in the domestic and international markets is jeopardized by protection, leading to production, job and income losses. Exporting industries do not escape these negative, indirect effects. A recent study by Clements and Sjaastad (1985) reveals that up to one-half of the cost of trade protection is shouldered by domestic exporters. Among the major reasons are the increased price of imported inputs, weaker foreign markets as a result of lost foreign export earnings, and induced exchange rate appreciations.

Rising costs and prices, whether directly or indirectly caused, all contribute to price inflation. Aside from eroding the economy's competitiveness, inflation reduces the purchasing power of consumer incomes. It may well be that the producers and workers in the protected industry benefit from a higher real income. However, producers, workers and individuals elsewhere see the real value of their salary, wage or pension go down as they pay higher prices for goods and services. This reduction in real purchasing power, coupled with declining competitiveness, can lead to a significant slowing of both economic growth and job creation in the nation.

Trade protection affects more than just the current performance of the economy. When prices rise and real incomes are eroded, consumers reduce their spending. In the face of a declining market, producers are likely to postpone or stop any new investments in plants and production facilities. At the same time, a trade barrier in one market attracts investment to the protected industry and away from those industries where the investment has a greater potential value to society. In this way, the trade barrier encourages future as well as current inefficiency.

All of the above factors are likely to contribute to more demands for trade protection as real incomes and jobs in other industries decline and investors attempt to protect past investments. It is frequently argued by special interest groups that providing them with trade protection has little or no effect on the rest of the economy. But each "little" trade barrier adds to both the burden of trade protection and the pressure for more trade protection. The first trade barrier may have a small effect but each additional barrier adds to the lowering of domestic production, employment, real incomes, and national economic welfare.

Trade Liberalization and Industrial Structure

The presence of economies of scale, market power and product differentiation in many industries has led numerous Canadian economists to investigate their importance in explaining trade and in evaluating the costs and benefits of trade liberalization. The inclusion of these market factors has provided important practical explanations for such events as intra-industry trade and differences in cost structures between countries. For example, with product differentiation, differences in the product characteristics and the variety that consumers enjoy as a result can be an impetus for intra-industry trade that is not accounted for solely by comparative advantage in the simplest sense of the term. Differences in cost structures may be related to the size of the market served, and hence to the economies of scale achieved, by industries in different countries.

Market power raises important policy concerns. Numerous markets are dominated by one or more firms – creating a monopoly or oligopoly situation – where the firms are able to use their market power to charge a price above the economic costs of supplying their goods or services. This allows them to earn above-normal profits and incomes but leads to inefficient domestic resource allocation. The analysis of the relationship between trade and market power shows that import competition reduces market power. Foreign competition forces large domestic companies to lower their prices and leads to a more efficient allocation of the nation's resources.

Several important works to date have addressed the relationships between trade, economies of scale and the small size of the Canadian market, starting with the early studies by Eastman and Stykolt (1967), Melvin (1969) and Wonnacott and Wonnacott (1967). Considerable theoretical analysis has been done on the question of whether the presence of economies of scale means a small country can lose from trade liberalization. Curtis (1983), Ethier (1983), Melvin and Markuesen (1985), and others have examined this question from numerous angles, including cases where market power and economies of scale exist together. Their conclusion is that under very special circumstances, it is theoretically possible for a small country to suffer economic welfare losses from trade liberalization. However, in the general case, they find that not only does a small country come out ahead from trade liberalization but the benefits are much larger than traditionally thought.

Liberalized trade allows companies in small countries to achieve economies of scale by providing access to large markets. Trade barriers in the domestic market, on the other hand, discourage firms from striving to grow and reach the threshold for efficient large-scale production. Foreign trade barriers, particularly in large countries, also prevent companies from achieving economies of scale in smaller countries. In the case of a Canadian company exporting to the United States, it is not the U.S. importer but the producer in Canada who pays the U.S. tariff. This does not occur directly of course, but in order to compete with U.S. producers on their home turf, Canadian companies must charge a lower price so that when the tariff is added, it remains competitive with the prices charged by U.S. producers. Consequently, even if Canadian producers are able to minimize their costs, they still face the additional cost of U.S. protection.

When economies of scale are present, liberalized trade allows two types of specialization: within industries as firms rationalize their products, production facilities and managerial operations; and between industries as capital and labour are reallocated to those industries for which access to a larger market through freer trade makes possible the exploitation of economies of scale. With no trade restrictions, import competition provides the catalyst for firms to adjust their production techniques and products to achieve economies of scale, while access to foreign markets allows them to produce at a globally efficient and competitive level. Productivity and efficiency increase throughout the economy, and the gains to consumers are even greater because not only do they pay lower prices but, with product differentiation, they have a greater variety of products to choose from.

The inclusion of economies of scale, product differentiation, and market power as important factors has also generated considerable empirical research on the interrelationships between economies of scale, product diversity, plant size, market size, pricing behaviour, company size, ownership, trade and trade barriers in the Canadian manufacturing sector. Work by Daly (1985), Baldwin and Gorecki (1985), Hazledine (1979) and others on these interrelationships have shed considerable light on two important questions: why most Canadian manufacturing industries are high-cost, low-productivity producers; and what changes would likely occur in the industrial structure of Canadian industries if trade barriers were reduced or eliminated. In general, the research has concluded that trade barriers in a small market contribute significantly to the phenomenon of excessive product diversity, short production runs and small plant size. Furthermore, Baldwin and Gorecki (1985) argue that the increase in the length of production runs and the reduction in product diversity during the 1970s are explained to a large extent by market growth and falling trade barriers.

The Impact of Trade Liberalization on Canada

The evidence at hand would suggest that incorporating scale economies, product differentiation and market power dramatically increases the potential benefits to Canada from trade liberalization. Their existence does not violate the principles of comparative advantage and mutual gains from trade. However, they do make it more difficult to predict what the pattern of trade will be and which industries will expand and contract once trade is liberalized.

In one of the most important contributions to Canadian economics in the past decade, Harris and Cox (1983) have constructed a major empirical trade model. It covers 29 industries and incorporates economies of scale, market power and product differentiation in the manufacturing industries. While the model can be improved significantly, it is nevertheless a powerful tool because it can be used to examine the consequences of a great variety of trade policy changes on production costs, output, market behaviour, industrial product prices, consumer prices and employment in each industry and throughout the economy.

In the case of unilateral trade liberalization in all sectors, they conclude that Canada's economic welfare would improve by just over 4.1 per cent of gross national expenditure (GNE), representing a permanent, once-and-for-all net gain to Canada. Consumers, as expected, gain from lower prices. Output in all industries outside the manufacturing sector increases. Production also increases in 15 of the 20 manufacturing industries. Labour productivity rises in all industries and, contrary to what many would expect, real wages and employment in manufacturing also rise. Employment declines in non-manufacturing industries but with higher labour productivity, non-manufacturing industries can produce more using fewer workers. Unilateral removal of trade barriers forces industries to rationalize, specialize and become more efficient and competitive. The results from the unilateral trade liberalization experiment are interesting because they show that significant gains can be realized merely from removing Canadian trade barriers, and that a large part of these benefits are captured by the manufacturing sector.

When trade is liberalized multilaterally, the net welfare gain to Canada in the model jumps to 8.6 per cent of GNE. The main source of this gain is intra-industry rationalization and inter-industry resource allocation. Labour productivity rises by 33 per cent and total productivity in Canada increases by 10 per cent. As before, employment increases in the manufacturing sector and declines elsewhere, and the major beneficiaries from multilateral trade liberalization are the workers; with lower prices and higher labour productivity, their real wages rise by as much as 13 to 15 per cent.

Cox and Harris (1984) have also simulated the effects of bilateral trade liberalization between Canada and the United States. The welfare gain for Canada is on the order of 9 per cent, slightly higher than is the multilateral case due to the effect of trade diversion (i.e., the source of U.S. imports tends to shift from other countries to Canada). Labour productivity rises by 29.9 per cent and real wages jump by 28.3 per cent.

Under both multilateral and bilateral trade liberalizaton scenarios, all non-manufacturing industries experience output increases, and output declines in only a few manufacturing industries: leather products in the multilateral case; furniture and fixtures, machinery and equipment, and miscellaneous manufacturing under either multilateral or bilateral trade liberalization; and agricultural equipment and electrical equipment in the bilateral case. In all other manufacturing industries, output increases to a much greater degree than when only Canadian trade barriers are removed. In general, Harris and Cox conclude that the industries most likely to gain from removing Canadian and foreign trade barriers are those characterized by unexploited economies of scale, low levels of protection, capital-intensive production methods, and product differentiation.

As Hazledine (1984), Moroz and Meredith (1985), and Whalley (1984) point out, the Harris/Cox model can be criticized on numerous grounds. Nevertheless, most economists agree that it is a major contribution to assessing the impact of trade liberalization on Canada. Moreover, the criticisms of the model do not dispute its main findings: that the benefits to Canada are large and that workers in general and the manufacturing sector in particular are both much better off when trade is liberalized.

Economic theory and empirical analysis lead to the same conclusion: that both multilateral and bilateral trade liberalization offer Canada the potential for real economic gains. A few industries would suffer output and employment losses but the majority of industries would be able to expand their production and capture economies of scale. Canadian consumers would be able to benefit from lower prices and greater product selection. Workers would gain dramatically in terms of real wages. All of this evidence points to the great desirability of multilateral trade liberalization. If Canada is to maximize its prospects for income growth, the interests of the country as a whole in the removal of trade barriers will have to prevail over the narrow interests of specific groups in maintaining or even extending trade protection.

Chapter 3:

Is There a Case for Protection?

> These natives are a very hospitable people indeed – very hospitable. If you want to stay a few nights in a native's cabin you can stay and be welcome. They will do everything possible to make you comfortable.... But if you want to trade, that's quite another matter – that's business!
>
> Mark Twain, Sandwich Islands Lecture, 1885

If trade barriers create inefficiency, distort trade and factor flows and are a cost to society, on what basis do individuals and groups resist trade liberalization and demand trade protection?

Aside from generalized concerns for stability and the fear of rapid economic change, there are a number of specific arguments that are commonly advanced by those seeking protection from import competition. These are often quite complex and, in some cases, are merely elaborate justifications for the simple pursuit of self interest. While some arguments for protection stem from legitimate public policy goals, they are often based on a misunderstanding or an incomplete analysis of the effects of trade restrictions in an open economy. In all cases, however, it is important to keep in mind that what is at issue is not whether government should play a role in the economy but whether trade protection is the best policy option.

This chapter examines the arguments for trade protection. It asserts that:

- The national security and national sovereignty arguments for protection are overstated. In the case of national sovereignty, the argument overlooks the role that trade liberalization can play in strengthening the domestic economy and indirectly contributing to the social, cultural and political progress and development of a sovereign nation.

- Market failures should not be dealt with through tariffs, quotas or other forms of trade protection. Rather, the cause of the failure should be investigated and the problem addressed directly.
- The infant industry argument for trade protection might be valid for large economies such as those in the United States or Japan, but the small size of the Canadian market makes successful infant industry protection less likely. Moreover, as the protected industry matures, it may view lobbying against the removal of protection or the pursuit of new forms of protection as the most profitable use of its resources. As one observer has noted, "immunity from competition is a narcotic".
- The idea that trade restrictions can increase employment is doubtful even for the protected industry; while some jobs might be saved in the short term, in the longer term and for the economy as a whole, protection is much more likely to reduce employment.
- While numerous other arguments have been cited in support of protectionist measures – including the desirability of strategic industries, the need for breathing space, protection from cheap foreign labour – none has sufficient weight to swing the balance of economic interests in favour of trade protection.
- In the final analysis, trade liberalization depends on the political will of governments to eliminate trade barriers, negotiate and accept the disciplines of effective trade rules, and resist domestic demands for new trade protection.

National Security

There can be no question that national security is a critical policy goal for which other goals must occasionally be compromised or sacrificed altogether. In an uncertain and frequently tension-filled world, adequate domestic production capacity and supplies of food, metals, minerals, energy and military products are often viewed as essential. However, the definition of "essential industries" often becomes surprisingly broad when calls for higher tariffs, stricter import quantity controls or other forms of overt trade protection are heard. More important, there are several better and less costly policy instruments for securing a national capacity for the production of strategically essential goods.

Since governments are the sole purchasers of major defence products (e.g. fighter aircraft, nuclear and conventional ordnance) in most countries, preferential government procurement policies are appropriate for developing and maintaining the essential defence manufacturing capability and facilities. In other strategically important sectors such as food processing, agriculture, mining and energy, a secure national base can be fostered by other policy instruments. Targeted domestic subsidies and public ownership, for example, are preferable to overt protection in terms of the costs to consumers, the loss of economic efficiency, and the disruption in world trade. Subsidies in particular have the added advantage of greater transparency than tariffs, quotas and other trade restrictive policies, so that the true cost of national security is more readily discernible.

The need to maintain national security is not inconsistent with a liberal trading system, but even when the claims of national security are valid, they need to be carefully evaluated in terms of the appropriate policy direction and instruments. The national security argument can be easily overstated and distorted when it comes to trade policy. Indeed, in some specific cases, such as for steel fasteners in the United States, footwear in Sweden, and textiles and clothing almost everywhere, the national security argument has been taken to absurd lengths to obtain overt trade protection. Such instances clearly call into question the true motives of those lobbying for import restrictions.

National Sovereignty

Many citizens and groups in Canada and in other countries have questioned the wisdom of exposing broad social, economic, and cultural goals to the vagaries of the international market-place. In Canada, these concerns are often raised because of the great reliance on foreign markets, capital and technology, the high degree of foreign ownership and control of many domestic industries, the relatively greater importance of north-south trade flows with regions of the United States compared to east-west flows within Canada, and the generally dominating presence of the United States. Though many recognize the economic benefits of liberalized trade and effective trade rules, others would argue that the costs are too high when measured in terms of reduced political independence and social and cultural integrity.

National sovereignty cannot be excluded from trade policy deliberations. Perhaps the clearest illustration of this is the recent proposal to include services in a new round of multilateral trade negotiations. This proposal could bring international pressures and constraints to bear on Canada's communications, transportation, financial, cultural and other service industries that are so important to social progress and nation building.

Though it is often difficult to strike the proper balance between protecting domestic goods and service industries for cultural and socio-political reasons and pursuing trade liberalization and effective trade rules, there is no hard evidence that past trade liberalization has led to reduced cultural integrity and political independence. If anything, the stronger domestic economy produced by trade liberalization has contributed to social, cultural and political progress and development.

In a global economy characterized by increasing economic integration and interdependence of national economies, sovereignty does not confer complete freedom of action on any country. The policy actions of one country – whether trade policy, domestic economic policy or domestic non-economic policy – can significantly affect the economic interests of other countries. For a smaller country like Canada, international understandings, institutions and rules governing the conduct of trade policy offer greater predictability and stability in international relations and, hence, a more favourable and less politicized environment for advancing national interests and sovereignty. In this light, a national decision to enter into trade negotiations or to conclude an international trade agreement constitutes an exercise of national sovereignty in itself.

Market Failure

The existence of market failures often provides justification for government intervention to improve the efficiency of resource allocation in the economy. In some cases, private markets may fail to bring about desirable results, for example, when individuals who have not paid for a good cannot be prevented from enjoying its benefits. Private markets in these situations will not result in the production of the optimal or most desirable amount of the good or service; indeed, it may not be produced at all. The relevant policy problem is then a matter of deciding which policy instrument should be employed. While several different instruments may be suggested to policymakers, in no case is the use of trade barriers the best solution. A simple example will suffice to illustrate this general conclusion.

Consider a situation in which a chemical plant is located next to a commercial fishing operation. If the chemical plant's effluent flows into the lake, then the catch of the fishing company will decline due to a higher fish mortality rate. Consequently, the costs of catching and consuming fish increase because of the external cost imposed by the dumping of the chemical plant wastes. Put another way, the cost to society of producing chemicals is the private costs incurred by the chemical producer plus the increase in the private costs of fish production and consumption.

One solution to the problem is to reduce chemical production and increase fish production. This could be achieved by a tariff on fish imports. As the price of fish rises relative to the price of chemicals, resources are drawn from chemical production to fish production. However, the tariff imposes all the welfare costs associated with trade barriers without removing the source of the market failure, that is, the ability of the chemical plant to avoid paying the full costs of producing chemicals. An effective pollution prevention policy is clearly more desirable. A tax on polluting companies or a subsidy to encourage the purchase of pollution-control equipment could be used to obtain the desired resource shift and eliminate the cause of the market failure without imposing the welfare costs of trade restriction.

Whether the problem of market failure is one of consumer protection, monopoly power, encouragement of cultural industries, worker safety, pollution, or distorted capital markets there is always a more desirable policy solution than trade protection. Unfortunately, this does not prevent some interest groups from using these concerns as arguments for trade protection.

Infant Industry

The "infant industry" theory is one of the oldest and most commonly used justifications for tariff protection. First advocated by Frederick List in the early nineteenth century, it continues to be cited today as a major argument for trade protection in both the developed and industrializing countries, particularly where economies of scale are important to an industry. Its main rationale is that since domestic or global market distortions can prevent the development of a domestic industry that would otherwise be internationally efficient and competitive, there is justification for protection.

The infant industry argument states that in the initial stage of development, the domestic market should be protected from foreign competition so that local firms can build up and fully develop their production facilities, labour force, market presence and managerial talent. This allows them to bring down their per-unit production and operating costs, to learn the market and business, and, hence, to become efficient and competitive producers by capturing internal scale economies. When the domestic firm develops and matures, the trade barriers used to shield it can then be removed.

If markets are competitive and there are no economies of scale, then there is no economic justification for the infant industry argument. The presence of internal scale economies does not in itself validate the argument, even when these are associated with market distortions. When the source of the market distortion is domestic—such as an uncompetitive local capital market—then the proper policy solution is to use a domestic economic policy instrument, not a trade barrier. In industries where major internal scale economies co-exist with global market power of individual firms (for example in steel, chemicals and automomotive industries), predatory actions by existing large foreign firms could pre-empt the emergence of domestic firms that could be internationally efficient and competitive once they cross the threshold of large-scale operations.

The need to capture internal scale economies and the real possibility of externally induced market distortions suggest that temporary trade protection is not only justifiable but also a rational policy action. However, there are some practical problems with this line of reasoning. To start with, any firm or industry could claim to be a potential winner. How are the real potential winners to be distinguished from those firms and industries that have little chance of becoming internationally efficient and competitive and are simply seeking self-serving trade protection? Choosing the wrong industry, especially in a small country, could prove costly in terms of economic growth, employment, and standard of living. Many European and North American analysts point to the Japanese government's decision, curious in hindsight, to de-emphasize automobile production for export. However, careful analysis suggests that Japan's real economic talents are knowing when and how to get out of a losing industry rather than choosing the next winning industry.

Even if the government is able to choose the right industry, what is the likelihood of that industry willingly surrendering its sheltered and secured domestic market once it matures, especially if the trade barriers allow the domestic firms to extract above-normal profits and incomes from domestic consumers? As an anonymous U.S. anti-trust commentary once put it, "immunity from competition is a narcotic."

It is just as likely that the mature domestic industry will use its new-found wealth and power to oppose removal of the originally-intended temporary trade protection. Indeed, as the industry grows old and falls behind in technology, marketing, labour skills, product lines and so on, its demands are likely to be for more, not fewer trade restrictions, and for a wider variety of protective measures. The infant industry argument, even if valid at an early stage, eventually begs the question: why should firms bother to become internationally competitive if they can be comfortably sheltered from external market forces?

Whether or not the infant industry strategy works is a subject of much debate. Over 80 years of tariff protection in Canada under the National Policy suggests it does not. Some Canadians point to the economic success of the domestic steel industry as supporting evidence, but as Daly (1985), Wonnacott and Wonnacott (1982) and others frequently observe, large segments of Canada's manufacturing sector continue to consist of high-cost, low-productivity producers. Many Canadian manufacturing firms and industries are still characterized by short production runs, excessive product diversification, and small plants as compared to their U.S. counterparts. While there has been significant improvement in the operations of Canadian manufacturing industries in the last two decades, the analysis by Baldwin and Gorecki (1985), Daly and MacCharles (1986), and others conclude that trade liberalization under the GATT – and not trade protection – has been a major contributing factor.

Several Canadian economists, including Britton and Gilmour (1978), Rotstein (1985), Lazar (1981), and Wilkinson (1985) contend that tariff protection alone is inadequate. They argue that much of Canada's problem in developing a viable, world-competitive manufacturing sector is due to the high degree of foreign ownership and control. Foreign control, it has been argued, leads to: a truncated mini-replica of the U.S. oligopolistic structure in the small Canadian market, poor research and development performance, and technological and managerial dependence on the U.S. parents of Canadian subsidiaries. While such theories do not reject trade liberalization in the long run, they argue that what is needed today is an industrial strategy that maintains the current level of trade protection, adds more trade protection through government procurement policies and contingent protection laws, limits and further restricts foreign direct investment, encourages mergers to build up Canadian firm size and strength, and raises research and development expenditures and activities in Canada.

Safarian (1969), Daly (1979), the Economic Council of Canada (1983), and Saunders (1982), among others, have contested the argument that the plight of Canada's manufacturing sector is largely attributable to direct foreign ownership and control. They cite evidence that foreign-owned firms perform as well if not better than Canadian-owned firms, and contend that foreign investment is, on the whole, beneficial to Canada. In their view, trade liberalization and improved conditions of access to large foreign markets is essential for improving Canada's manufacturing productivity, research and development and managerial performance.

Canada is by no means the only country to embark on the infant industry strategy in one form or another, nor is it the only country to experience significant foreign ownership and control, low research and development, and technological dependence. Western European countries have continued to employ trade protection in order to encourage domestic industrial development in numerous industries, including steel and consumer electronics. During the 1960s and 1970s many Third World countries embarked on import substitution strategies to foster the development of a heavy industrial base. Their track record has not been encouraging. In fact Balassa (1981) argues that the import substitution strategy in the Third World has been a disaster because it has diverted resources away from those sectors in which comparative advantage exists, and, hence, has stifled economic growth and development. In other words, the infant industry strategy does not appear to live up to its billing. Nor is it obvious, as some would have it, that liberalized trade and effective trade rules are inconsistent with rules and controls on foreign direct investment. At the same time, trade liberalization and effective trade rules are likely to provide a better economic environment for increasing research, development and technological innovation, as well as for rationalizing production and managerial activities and achieving scale economies in a small country.

The infant industry argument may make some sense for large countries like Japan and the United States. Their large domestic markets provide the room for local firms to grow, achieve scale economies and mature. But it makes no sense for a small country, which often lacks a large enough market for domestic firms to reach the threshold of efficient production and operation. Unrestricted and risk-free access to foreign markets is critical if infant industries are to develop in small economies such as Canada.

Trade liberalization provides the opportunity for small countries to develop industries in which they have a comparative advantage once internal scale economies are achieved. Effective trade rules minimize the risks of exporting from small countries, and closer economic co-operation in areas outside trade policy contributes to a reduction of market distortions. Together, they encourage a more efficient use of the world's resources and promote economic growth and development, as well as allowing both small and large countries to benefit from international trade.

Strategic Industries

A variant of the national security and infant industry arguments is the proposition that certain core or key industries must be protected because of their "strategic" importance to the national economy. This argument is frequently heard when calls for quotas and content legislation are made by the automotive, communications equipment and steel sectors. For instance, it was the first argument cited by Lavelle and White (1983) in support of their demand for automotive content legislation in Canada. The strategic industry argument is also used by numerous other industries, and is usually advanced as the main reason for protecting the so-called "high tech" sector.

Strategic industries are argued to be those that are large, employ a great number of people, require skilled labour, have large internal scale economies, purchase products from many other industries, sell products to many other industries, and/or create and use new technologies in their production processes and products. Unfortunately, these attributes can describe almost any major industry, and this raises the question of where the list of potential core industries stops.

Past use of this argument suggests that a strategic industry is one that is closely associated with the industrialization of Western Europe and North America in the last century and first half of this century. That the historical role of any industry should determine if it is strategic is questionable; nevertheless, it is ironic that most of these industries – for example, the automotive, chemical, steel and machinery and equipment sectors – grew and matured by exporting as well as by selling in the domestic market.

Notwithstanding the problem of identifying which industries are strategic, perhaps the more pertinent question is what makes a certain industry so important that it must be located within the national boundary, and why trade protection is the only policy available for encouraging its development. One possible case is the presence of external scale economies which arise when the nature of an industry is such that before it can become efficient and competitive, it must reach a critical size in order to develop the required vertical and horizontal linkages, specialized inputs, labour skills and market infrastructure. The existence of internal scale economies is not necessary for external scale economies to exist. To take the example used by Markusen and Melvin (1984), agriculture is an industry where farms are not required to be large relative to the market, but a large agricultural sector is required in order to foster the growth of specialized producers of farm machinery, fertilizer, transportation services and so on.

The critical issue here is the linkage of the core industry to other industries. The proponents of trade protection use the argument that the absence of the core industry – be it the producers of a consumer good or the producer of an industrial good – prevents the development of the supporting or dependent industries. In other words, external scale economies may themselves act as a market distortion, preventing the development of other industries that could otherwise be globally efficient and competitive.

External scale economies may justify government assistance but it does not necessarily follow that tariffs, quotas and content legislation are the only, or even the desirable, forms of assistance. The presence of external economies themselves does not mean that trade liberalization must lead to national economic welfare losses. It is only under specific and limited circumstances that this possibility exists, and this is usually in lesser developed countries, not the developed countries, because of their lack of well developed social, economic and market infrastructures.

If trade protection does not provide net economic gains, then the use of trade barriers becomes even more questionable. The practical problems of the strategic industry approach are the same as the infant industry strategy, and both approaches burden the economy with the costs of trade barriers. Likewise, small developed countries such as Canada are at a great disadvantage in using trade barriers to foster the growth of an industry that must be a certain size in order to develop the desired industrial linkages.

There is also the question of whether external scale economies actually represent a market distortion in a highly integrated global economy. Modern transportation technologies allow firms to buy and sell throughout the world market, reducing the need for locating all of the strategic industry group within the national boundary. While some may argue that this increases economic vulnerability, it would seem clear that the logical policy option is not trade protection, but rather effective international trade rules. This would allow all countries to share in the gains from trade and specialization. Moreover, it would seem to be the prudent approach for Canada, which has a comparative advantage in many major industries but lacks the domestic market for them to grow and mature.

Engineered Comparative Advantage

It is now generally accepted that a country's comparative advantage is no longer simply the natural outcome of the differences in the economic conditions and attributes between national economies. Technology and capital now cross national borders with relative ease and consumer tastes within the industrialized world are converging. While the configuration of a nation's capital, labour, natural resources and other factors of production continue to influence its comparative advantage, international differences in factor endowments are much less important today in determining what a country will produce and trade. As Melvin (1975) has shown, domestic policies such as taxes and subsidies can affect the pattern of production and trade, and many observers have suggested that a government can engineer its country's comparative advantage through the use of these domestic policies along with import barriers and export subsidies.

The engineered advantage argument has been combined with the strategic industries argument in support of demands for domestic incentives and trade protection for high-tech industries such as super computers, micro-chips and aircraft. Proponents advocate the use of measures such as capital and research and development subsidies and preferential government procurement practices to give key high-tech industries both a cost advantage against foreign competitors and a secure market base, allowing domestic firms to engage in more aggressive and often predatory competition in international markets. In other words, the government provides them with the weapons to engage in economic warfare.

Many economists dismiss the case for protecting semiconductors, aircraft and super computers as being no more sound than the case for textiles, shoes and steel. Moreover, the money for subsidies does not come free, and targeted subsidies and trade protection place a burden on both the domestic and international economy by distorting prices, resource allocation and trade patterns. There is little doubt that a government can artificially build up an industry, but for what gain and at what cost to taxpayers and consumers?

The practical problems associated with the strategic and infant industry approaches seem to be borne out by the evidence. Both Japan and Europe have engaged in the engineered advantage strategy for computers and semi-conductors but there is no evidence that their firms have captured and held dominant shares of foreign markets or earned above-normal profits as a result. Canada and Europe have subsidized and protected their aircraft industries for over a decade, with only modest gains in world market shares and a major drain on their national treasuries to show for such policies. France and Great Britain have attempted to use cheap export credits to expand foreign markets for their capital goods industries with little success. In virtually every case, the outcome has been world price wars, disrupted markets, retaliation, domestic firms totally weaned on government subsidies, and heavy costs to national taxpayers.

Caught in the middle are the small countries. They have neither the domestic market size nor the national treasuries to conduct the engineered advantage strategy, especially in the face of similar strategies and potential retaliation by the large countries. Small countries have a lot to lose and little to gain from supporting trade protection on the grounds that certain advantages can be extracted from foreigners by engineering a comparative advantage in some designated high-tech sector. Nevertheless, in both small and large countries, the engineered advantage argument has given the vested-interest groups new ammunition to pursue trade protection for their own gains.

Breathing Space

A modern-day twist of the infant industry argument is the proposal that older industries should be given temporary protection so that they can adjust to economic change. Since their products, facilities, technologies, labour skills, and managerial techniques are out of date, these industries, it is argued, cannot be expected to compete against new foreign producers. Through trade protection, older firms and industries can raise their prices and domestic market share. This provides them with both the profits and time to modernize products and facilities, retain labour, and introduce new managerial and marketing skills. In other words, protection is seen here as an appropriate means of hospitalizing the industry to provide breathing space to facilitate adjustment. (Greenaway and Milne, 1979, p. 17)

Article XIX of the GATT allows a country to impose temporary quotas and surcharges on imports of a product from all sources if, and only if, the industry is experiencing or is likely to experience severe economic difficulties and the main cause of these difficulties is import competition. There is no need to prove that the import competition is "unfair". Nevertheless, the advocates of "breathing space" protection do not like the need to prove legally both existence or threat of injury to the industry and causality due to imports. Their displeasure with the GATT rules is simple to understand: the GATT makes it difficult to get trade protection. For example, the U.S. automotive industry petitioned for import relief from outside competition in the late 1970s because they did not keep up with changing product and production technologies, management techniques and consumer tastes. After examining the case, the U.S. International Trade Commission in 1980 ruled on the basis of the economic evidence that injury existed but that the cause was not import competition. Instead, injury was due to the shift in demand to smaller fuel-efficient cars and a fall in overall consumer demand for automobiles. Having failed to win their case on economic evidence, the automotive industry used its political clout in Washington to obtain four years of protection from the Japanese producers.

Many commentators may argue the U.S. automobile case is a good example of how breathing space protection can work. However, U.S. consumers paid over $15 billion (U.S.) during the 1981-84 period to help in this recovery. A major part of this amount went to the Japanese producers in the form of rents and the restraints prompted these producers to move up-market to compete directly with the U.S. companies. In addition, the export restraints between the United States and Japan not only broke the GATT rules but also led to the conclusion of similar arrangements on Japanese automobile exports to Canada and encouraged several Western European countries to reinforce their existing controls on automobiles from Japan.

The European and U.S. steel industries also failed to adjust to economic developments during the 1960s and the 1970s and have sought breathing space protection to catch up with competitors. In the case of the U.S. industry, the stiff competition that the large older, integrated steel companies are facing is not only coming from imports but also from the new domestic mini-mill producers. However, this has not stopped them from demanding even stricter import controls on foreign competition.

The proponents of breathing space protection also dislike both the GATT requirement that imports from all sources be covered, as well as the requirement that affected countries can seek and obtain compensation. Again the reason is simple. It is much easier to take on one or two countries, especially if they are from the Third World, than to face all the GATT partners at once. By discriminating against a few exporters, a country with an important market can both increase the degree of trade protection and minimize or even eliminate the retaliation.

The most obvious example of the lack of credibility of the breathing space argument is the protection afforded to the textiles and clothing industries in the developed world. In the 1950s, North American and Western European countries started to restrict imports of textiles and clothing, first from Japan and then from a few Third World countries on a bilateral basis. The justification then was that the domestic textile and clothing industries required time and money to adjust. Thirty-five years later there are numerous bilateral restraint arrangements, and clothing exports from virtually every exporting underdeveloped country are restricted by almost every major developed country under the Multifibre Arrangement. The cost to consumers of such protection in the OECD countries has run into the billions of dollars, yet industry spokesmen in Canada, the United States and Western Europe continue to argue that more time is needed for adjustment.

The Nationally Optimal Tariff

One economic argument in favour of protection is the case of the nationally optimal tariff. In certain circumstances, it is theoretically possible for an importing country to use tariffs to increase its own welfare at the expense of exporters and of the world as a whole. This may occur if the importing country represents a sufficiently large portion of the world market for a given good so as to be able to affect the world price unilaterally. The imposition of a tariff in such a case will have the usual effects of increasing the price paid by domestic consumers, producing tariff revenues for the government, and resulting in a deadweight loss to the economy as a whole. It may also, however, lead foreign suppliers to lower their prices somewhat in order to limit the drop in their roles to an important market. The price decrease in effect results in exporters paying part of the costs of the tariff in the interests of stemming the decline in their overall profits. A tariff set at a level which produces the maximum net gain for the importing country in this fashion is known as the nationally optimal tariff.

For a number of reasons, the optimal tariff argument is not as good a justification for trade protection as it may appear to be. First an optimal tariff is not likely to be a highly protective one, since high or prohibitive tariffs will partially or completely discourage exporters from selling in the protected market. As the rate of protection increases, at some point the welfare losses from the tariff will fail to be offset by the tariff avenues earned on ever-shrinking levels of imports. Second, the imposition of an optimal tariff amounts to the exercise of market power by a buyer (the importing country) against the sellers (the individual exporters) of a particular good. While not impossible, the chances for success of this policy are more limited than might be expected since most countries are more highly specialized in the goods they export than in those they import. Even a large country like the United States will find itself in a position to exercise market power more often as an exporter than as an importer. Finally, and most important of all, only a few large countries are of sufficient importance as purchasers of traded goods to possess the influence over world prices in any given market that is necessary for the success of an optimal tariff. Canada, whose imports were a mere 3.8 per cent of total world trade in 1985, is unlikely to ever find itself in such a position.

Income Distribution

Throughout history, the aim of many protective policies has been the maintenance of incomes. (Corden 1974, p. 85) Likewise, trade protection has long been used to redistribute income to individuals, groups and regions by shifting economic resources to targeted industries. In either case, the proponents of income distribution by this method usually recognize the costs of trade protection, but argue that the improvement in income distribution is worth the cost of lower economic efficiency and national income.

It may seem strange to argue that shrinking the pie is desirable in order to cut it differently. Nevertheless, the income distribution argument is appealing on a number of grounds. The gains from specialization and exchange under trade liberalization come with little regard for how national income is distributed. The result could, in the extreme, be a highly inequitable distribution of income between skilled and unskilled workers, company owners and managers, professionals, landowners and other individuals. It is conceptually possible, although in practice unlikely, that the resulting income distribution would reduce economic growth. Proponents also point to the likelihood that one group – for instance, landowners or workers – would lose real income as a result of removing trade barriers, as indeed occurs in the conventional analysis of trade liberalization. The fear of many in Canada and in other developed countries is that labour will bear the real income losses.

All of these points, however, skirt around the main policy issue: the possibility of undesirable income distribution does not, in itself, justify trade protection since other policy instruments can be used to redistribute income. Governments have an entire range of tax, tax credit, transfer and domestic subsidy instruments which are more effective than trade barriers for redistributing income and much less costly in terms of lost efficiency. Likewise, the best approach for generating higher incomes is to provide more and better job opportunities. Trade liberalization provides these opportunities, and domestic tax, transfer, and subsidy policies offer the means to achieve equitable income distribution.

Protecting Jobs

Of all the arguments for trade protection, the one that is most frequently cited is the need to protect jobs. Not only are tariffs, quotas, and other trade barriers less effective at protecting jobs in a given industry than is commonly supposed, but these jobs come at the direct and indirect loss of jobs elsewhere. Trade barriers are also likely to reduce both the number and quality of jobs throughout the economy because of their adverse effect on competitiveness and economic growth.

The level of output and hence employment in any one industry will not generally expand on a one-to-one basis with the reduction of imports associated with trade restrictions. The reason is that tariffs, quotas and other measures drive up prices and reduce overall consumption, so that domestic production increases by less than the decline in imports. Trade protection may also lead to "capital deepening", or the substitution of more advanced capital equipment for labour in the production process, which tends to limit employment creation in the protected industry. This sort of strategy has been followed to varying degrees in the textile and clothing industries in Canada, the U.S. and Britian (Pearson and Salembier, 1983). A further constraint on the effectiveness of trade protection in promoting employment in an industry is the possibility of monopoly or oligopoly power. Where such market structures exist, the response to higher prices caused by trade barriers may be to continue to restrict output and to capture higher profits instead.

The empirical evidence on the futility of protection as an employment-creating device is persuasive. Following years of high tariffs, import surcharges, quantity controls and so on, the number of jobs in the textile, clothing and footwear industries in Canada, Western Europe and the United States is considerably lower than a decade ago. The main conclusion of a wide range of analytical studies on these industries and countries is that even in these heavily protected industries, rarely more than 3 or 4 per cent of the jobs are saved, despite billions of dollars paid by consumers in the form of higher prices. In an examination of 100

Canadian manufacturing industries, Hazledine (1981) incorporates economies of scale, corporate concentration and market power, and other market conditions in his assessment of the impact of unilaterally removing Canadian tariffs and certain non-tariff barriers such as the quota on footwear imports and the MFA restraints on clothing imports from the Third World. Hazledine concludes that in 41 industries, it is not jobs that were protected, but higher profits and wages and/or inefficient production. These conclusions alone should raise questions about the wisdom and efficiency of trade protection and resistance to change.

It is also argued quite frequently that trade protection can be used to reduce overall unemployment when the economy enters a downturn. With excess production capacity and weak demand, it is certainly possible to use trade protection to divert demand from foreign sources to domestic sources. This, of course, will lead to lower foreign incomes and, consequently, to lower exports. Any jobs gained by import protection would be at least partially offset by job losses in export industries. The job losses could, moreover, grow even larger if foreign countries retaliate, with the possible result of a series of beggar-thy-neighbour policies similar to those of the 1930s. Even without foreign retaliation, trade barriers that reduce imports tend to put upward pressure on the domestic exchange rate. This will in turn lead to a loss in the international competitiveness of both the export and import-competing sectors with a consequent loss of jobs.

Trade restrictions also interfere with macroeconomic objectives, for instance by contributing to inflationary pressures. Moreover, as the economy moves out of a cyclical downturn, trade barriers act as a bottleneck to recovery, especially if they have directed resources to inefficient and uncompetitive industries. This could cut off the recovery and leave the economy with rates of inflation and unemployment that are higher than necessary. Furthermore, it is unlikely that the government would be able to remove the trade barriers once the economy starts to recover. As Henry Kissinger, former U.S. Secretary of State, once remarked "once the genie of protectionism is out of the bottle, every special interest group will insist on its special claims." The appropriate response to a cyclical downturn, of course, is to use monetary and fiscal policies.

While trade barriers may provide some short-term relief from cyclical downturns, there is no evidence that trade protection creates more jobs in the economy in the medium term. There are, on the other hand, several good reasons to suspect that protection reduces employment. By promoting inefficient production and higher consumer prices, trade barriers lower real incomes and, consequently, consumer spending. Lower consumer spending inevitably leads to lower investment. Trade barriers also inhibit the cost and price competitiveness of domestic industries if they allow prices of industrial goods and materials to increase above the prices paid by foreign producers. This makes domestic industries weaker and less able to compete in both their home and export markets.

All of these factors contribute to weaker economic performance and growth, and, hence, reduce the economy's potential to create jobs. Trade protection also reduces the quality of jobs that are available. In terms of wage rates, fringe benefits, working conditions and other aspects of their employment experiences, Canadian workers in unprotected, export-oriented industries are generally much better off than those in highly protected, inward-looking industries. While there are a few exceptions, such as the relatively well-off auto workers who have benefitted from the special, managed trade framework of the Canada-U.S. Auto Pact, trade protection rarely affords workers the high wages, security, job satisfaction and future prospects that most desire.

Cheap Labour

It is quite frequently argued in the developed world that domestic workers should be protected from the unfair competition of "cheap" labour in Third World countries. Indeed, it is not uncommon for this argument to be "given a tinge of altruism by elevating it to one of protecting foreign labour from 'exploitation'" (Greenaway and Milne 1979, p. 16). Far from benefitting foreign workers in low-wage industries, however, trade protection by industrialized countries denies them, and the Third World generally, the opportunity for economic progress and development. The comparative advantage of these countries often lies in the same labour-intensive activities that are protected in the developed world. Such trade restrictions therefore fly in the face of not only the principles of an open liberal trading system but also the economic aspirations of the developing world.

In a very real sense, this "cheap labour" protection may also exploit workers in industrialized countries. Many of the industries demanding protection from cheap foreign labour, such as textiles, clothing and footwear, are among the lowest-paying in the developed world. This is due not to any lack of willingness to work hard on the part of workers in these industries but rather to the relative inefficiency of these industries compared to other industries in the developed economies. The comparative advantage of the industrialized countries lies in other economic activities that require a well developed socio-economic infrastructure and advanced production techniques and facilities. Labour productivity in these activities is higher and workers can therefore command higher wages.

In brief, "cheap labour" protection denies low-wage workers in both the developed and underdeveloped countries the opportunity to better themselves. Why governments in the developed countries would want to discourage labour from pursuing more productive and rewarding jobs is perhaps the real mystery.

Others Do It

While many commentators and policy-makers may agree that liberalized trade is the preferred trade policy option, they argue that trade protection is required to defend their national industries and economic interests from the aggressive policy actions of other countries. Whether it is by selective import controls, cheap export credits, discriminatory public purchasing policies, export subsidies, content requirements or overt industrial subsidies, numerous federal and junior governments are aggressively protecting and supporting such industries as automotives, aircraft, textiles and clothing, capital equipment and hydro-electric equipment. It may be one thing to say that natural market distortions do not justify trade protection, but no government should be expected to leave its industries or economic interests at the mercy of market distortions and disruptions caused by foreign governments.

This problem has grown because of the relative ineffectiveness of the GATT in dealing with many of these aggressive actions. The GATT has made little headway with regard to bilateral import restraints, subsidized agricultural exports and cheap government export credits. Nor are the GATT rules and procedures working as well as they could be in resolving trade disputes and in dealing with countervail and dumping cases. All of this contributes further to the erosion of the GATT system, which in turn encourages countries to seek unilateral or bilateral solutions to real and imagined trade problems.

The dilemma for small countries is even greater. Already vulnerable to, yet dependent on, the global economy, small countries face the increasing threat of being side-swiped by the actions of one of the large countries or, even worse, being caught in the cross-fire of a major trade war between two large trading nations. In several cases, Canada has felt obligated to act defensively and erect its own trade barriers because of the fear of dumped exports by third countries when one or more of the larger countries have restricted the access of certain products to their own markets. Likewise, the Canadian government claims to have found it necessary to offer official export credits to its capital goods producers in order to offset those provided by France, Great Britain, South Korea and other countries. In 1982, for example, the assistance given to the export of rapid transit equipment to New York City was defended, in part, on the grounds that this was needed to meet the terms offered to competing exports from France.

This is not to say that Canada has not contributed to the rise in protectionism by introducing its own aggressive actions. Indeed, few, if any, countries can claim innocence or simple self-defense. While some individuals will point to the so-called success of trade barriers in enticing foreign companies to invest locally, the cost to the protecting country and to the rest of the world in terms of economic efficiency and growth is not inconsequential. The investment itself may be inefficient in the sense that the economic resources it entails may have been used more productively elsewhere in the absence of the artificial inducement of trade barriers. The costs to consumers of the trade barriers themselves may also be substantial. The most serious cost, however, is that which stems from the effects of any "success" with such a strategy on other countries: trading partners will only be encouraged to attempt the same thing themselves, with potentially disastrous effects for smaller countries in particular. Canada's own National Policy of 1879, which many argue has left a legacy of economic inefficiency in spite of the investment it brought in, was put in place at a time of generally increasing tariff and other trade barriers. Moreover, such actions in the present context threaten the multilateral trading system, which has been painstakingly built up over the last 40 years.

There are, of course, numerous other arguments used to justify trade protection. Governments frequently argue that trade barriers are needed to correct balance-of-payments problems, exchange-rate instability, and slow domestic economic growth. Trade policy can provide no solutions to these problems, as the real cause lies elsewhere – usually with inappropriate macro-economic policy. Nor can trade barriers be expected to provide immediate relief from the symptoms of the real problem. It is more likely that protection will exacerbate both the problems and its symptoms. Nevertheless, governments are confronted daily by demands for protection from imports for this reason and for all the other reasons discussed in this chapter.

In the final analysis, trade liberalization depends on the political will of governments to eliminate trade barriers, negotiate and accept the disciplines of effective trade rules, and resist domestic demands for new trade protection. There is considerable scope within the GATT system to deal with the legitimate issues of national security and other non-economic domestic policy objectives. There is also a great deal of room for increased multilateral co-operation in economic matters outside the immediate trade policy sphere. Yet, far too frequently, these issues are twisted to reportedly support trade protection, with each industry, group, or even country presenting itself as a special case. And each so-called little bit of protection builds up the mound of total protection in the global economy, further threatening the GATT system and the economic benefits gained from past trade liberalization.

Chapter 4:

The Changing International Trade System

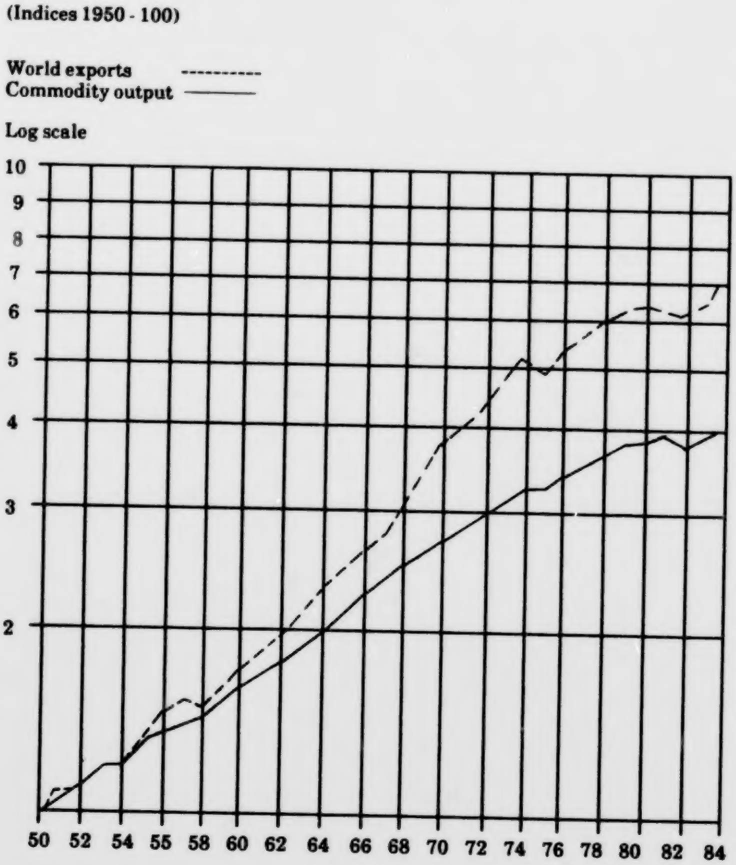
> Open international trade is a key to sustained growth. Trade opens vast markets to each nation's enterprises. It carries technology and innovation around the world. It spurs each nation to greater productivity. Today, however, the world market is not opening up; instead, it is being choked by a growing accumulation of restrictive measures. Demands for protection are heard in every country, and from one industry after another. The trading rules set under the General Agreement on Tariffs and Trade are increasingly ignored or evaded.
>
> *Trade Policies for a Better Future*, A Report to the Director-General of GATT by a group of Seven Eminent Persons, 1985

In Canada, as in other countries, trade policy is formulated and operated by government largely in support of domestic economic and other objectives; Canada's trade policy also reflects the interplay of federal and provincial responsibilities and objectives.[1] But Canadian trade policy, particularly import policy, is also conditioned by changing patterns of world production and trade, the evolution of the international trade rules embodied largely in the General Agreement on Tariffs and Trade (GATT), and changes in the trade policies and practices of Canada's main trading partners. For example, one important recent development in Canadian import policy – the 1984 Special Import Measures Act – was largely a response to the outcome of the Tokyo Round and to corresponding changes in the import policies of Canada's main trading partner, the United States, as embodied in the U.S. Trade Agreements Act of 1979. The outcome of the Tokyo Round itself reflected changes in patterns of world production and trade during the late 1960s and 1970s as well as the growing interdependence among an increasing number of trading nations. This growing interdependence was manifested in the higher rate of growth of international trade as compared to growth of world production, which is illustrated in Figure 4.1. For individual trading nations, interdependence is reflected in the increased ratios of exports to gross domestic product, as shown in Table 4.1. Most countries have experienced a steady increase over the past 20 years in the extent to which national income depends on exports.

This chapter will examine some of the outside influences that shape the formulation and operation of Canadian trade policy. The following points will be elaborated upon:

- Since the Second World War the GATT has provided the main framework for the evolution of Canadian trade policy; its rules have served, although imperfectly and unevenly, to discipline the trade policies of its members, including Canada.[2]
- Successive rounds of GATT negotiations have resulted in a substantial lowering of tariff barriers within the system, including the Canadian tariff; and the GATT rules relating to non-tariff barriers have been extended and elaborated, especially as an outcome of the Tokyo Round.
- Nevertheless, since the mid-1970s there has been an increase in the use of protectionist trade measures by many GATT members, including Canada, superimposed on a legacy of existing protectionism within the trade system. Many recent protectionist measures have been introduced outside the GATT framework, which has contributed to a further erosion of the authority of the GATT rules.
- The new round of GATT tariff and trade negotiations, expected to open in the fall of 1986, will provide needed opportunities for Canada and other GATT member countries to join in common efforts to reduce trade barriers, turn back protectionism and improve the rules governing international trade on a broad multilateral basis.

FIGURE 4.1
World Exports and Commodity Output in Real Terms
1950-1984



Source: GATT Secretariat

TABLE 4.1
Ratio of Merchandise Exports to Gross Domestic Product
1965-1985

	1965	1970	1975	1980	1985
United States	3.9	4.4	6.9	8.4	5.3
Japan	9.5	9.8	11.2	12.4	13.3
West Germany	15.6	18.4	21.4	23.6	28.6
France	10.2	12.5	15.4	17.1	19.6
United Kingdom	13.3	15.9	19.1	22.0	22.8
Italy	12.3	14.3	18.1	19.7	21.4
Canada	**15.6**	**19.5**	**19.6**	**25.6**	**26.4**

Source: IMF *International Financial Statistics*, December 1985.

Developments in the GATT

The General Agreement on Tariffs and Trade was created at the end of the Second World War as a cornerstone of a new order of international cooperation in economic areas. The GATT was designed to avoid a return to the ruinous conditions of world trade during the 1930s, characterized by widespread protectionism, discrimination and bilateralism. U.S. trade policies contributed to the near-collapse of world trade in the early 1930s. The Hawley-Smoot tariff raised U.S. rates to their highest level in history and provoked other countries, including Canada, to raise new barriers to their imports, partly in retaliation and partly in an effort to protect their domestic markets and employment after the onset of the Great Depression. In 1931 and 1932 Canadian tariffs were substantially increased; the average rate on dutiable imports rose from about 23 per cent to about 28 per cent.

The concept of a new order of post-war cooperation in world trade emerged during war-time discussions among the Americans, the British and Canadians. These discussions led to the convening of a United Nations conference in Havana, Cuba in 1947, which proposed the creation of a "multilateral" system for world trade, based on an internationally agreed set of trade rules (the "Havana Charter") and the establishment of an International Trade Organization (ITO) with universal membership. Neither the Havana Charter nor the ITO came into being, because of opposition in the U.S. Congress. Instead, the General Agreement on Tariffs and Trade (GATT) was adopted by a smaller group of the leading trading countries at the time. The GATT embodied the main trade rules of the Charter although it lacked certain of its features, including provisions for a strong institutional base. The GATT has remained the central element of the world trade system, supplemented by a number of ancillary codes and arrangements adopted over time. With the accession of Mexico in the summer of 1986, 92 countries are now members of the GATT, and the system covers about four-fifths of world trade. (See Appendix One)

The GATT provides not only an evolving set of rules for international trade, but also a framework for the liberalization of trade, facilities for the resolution of trade disputes, a framework for continuing consultations among its members, and an institution with headquarters in Geneva, Switzerland to assist the operation of the system.

Although the GATT rules are numerous and complicated, they are based on a few fundamental principles and aims, as follows:

- *non-discrimination*. This principle is embodied in the well-known "most-favoured-nation" clause: all members must grant to each other treatment as favourable as they give to any other country in the application of their tariff systems and other trade regulations. A number of exceptions are permitted, including an exception for countries that form customs unions and free trade areas, and an exception to permit more favourable treatment of imports from developing countries.
- *national treatment*. Once a product has been imported, it must be accorded "treatment no less favourable than that accorded to like products of national origin"; thus, for example, governments may not tax an imported product more heavily than a similar product produced locally.
- *protection through tariffs*. Where protection is given to domestic producers, the preferred instrument is the customs tariff, and despite a substantial reduction in tariffs generally in recent years, these remain a widespread and important form of trade protection; non-tariff measures are permitted under the GATT, but only under specified conditions and in accordance with the

agreed rules. Moreover, tariffs should be reduced or eliminated through a process of negotiations and, once lowered or eliminated, they should be "bound" (i.e., guaranteed) against subsequent increases except through a process of further negotiation.

- *dispute resolution*. Trade disputes should be resolved through a process of consultation and conciliation, not by retaliation and counter-retaliation.

The basic GATT rules have remained virtually intact since the General Agreement came into force in 1948, but a number of them have been extended, elaborated and clarified over the years, especially as an outcome of the Tokyo Round in the 1970s. As discussed below, there is now the prospect of a further evolution of the GATT system: it is generally expected that a new round of multilateral tariff and trade negotiations will be formally launched in the autumn of 1986.

Key articles in the GATT

From the perspective of the present study, the following GATT rules are the most important (selected GATT articles are reproduced in Appendix Two):

- Quantitative restrictions on imports are prohibited (Article XI) except in a few specified circumstances. One of the main exceptions permits their use to control imports of agricultural products, but only where these are covered by domestic schemes which limit the production of the product concerned (Article XI:2). Another exception permits their use as a temporary "safeguard" measure to control unexpected inflows of imports which cause or threaten injury to domestic producers of like products (Article XIX). Yet another exception permits their use by countries experiencing balance-of-payments difficulties (Articles XII and XVIII).
- As noted above, tariffs are the instrument preferred by – and widely used under – the GATT to control imports, and the GATT system has encouraged their reduction and elimination through successive "rounds" of negotiations. An important feature of the GATT rules involves the "binding" of tariffs (Article II), which makes it difficult to increase rates that have been reduced except by a difficult process of negotiation with exporting countries (Article XXVIII); although not all tariffs are bound under the GATT, and some members have bound only a few of their rates, the process has resulted in a high

degree of certainty and stability in many tariff systems, including the Canadian systems.

- Article VII is designed to prevent the manipulation of systems for the valuation of imports for customs purposes; "these rules were extended and elaborated as an outcome of the Tokyo Round, under a supplementary Code on Customs Valuation".
- GATT condemns dumping (the export of goods at prices lower than those at which they are sold in the home market), but only if the dumping causes or threatens "material injury" to an industry in the importing country, or "materially retards" the establishment of an industry (Article VI). In these circumstances, the rules permit the imposition of a special "anti-dumping duty" on the goods concerned up to the amount of the margin of dumping (Article VI:2). The basic GATT rules on the use of anti-dumping duties were extended and elaborated as an outcome of the Kennedy Round in the mid-1960s, under a Code on Anti-dumping Duties; this code was revised somewhat as an outcome of the Tokyo Round.
- The GATT rules prohibit export subsidies on manufactured products. Those on primary products are permitted, provided they do not result in the exporting country gaining "more than an equitable share of world export trade in that product" (Article XVI:3). Domestic subsidies are not prohibited, but if a domestic subsidy prejudices the interests of another member country, the country granting the subsidy can be required to enter into discussions on limiting it (Article XVI:1).
- An importing country has the right to impose a special countervailing duty to offset a subsidy by an exporting country, but such a duty may not be greater than the amount of the subsidy (Article VI:3), and can be imposed only if it is determined that imports of the subsidized product are causing or threatening "material injury" to an established domestic industry, or retarding the establishment of an industry (Article VI:6). The basic GATT rules were elaborated by the "Subsidies Code", adopted as an outcome of the Tokyo Round by a group of GATT members. This code contains detailed provisions regarding domestic procedures for determining whether imports are being subsidized and whether a domestic industry is being injured as a result; further, it imposes a variety of conditions on the use of countervailing duties to offset such subsidies.

- Article XIX of the GATT, as noted above, permits a member country to impose special barriers to imports of particular products where these are being imported in increased quantities and under other conditions which cause or threaten "serious injury" to domestic producers of similar products. These "safeguard" measures ("escape clause" in U.S. terminology) may take the form of increased customs duties or quantitative restrictions, but the latter are more usual. In either case, the new barrier must be applied on a most-favoured-nation (MFN) basis against imports from all sources. Moreover, the country applying the restriction may be requested to compensate the main exporting countries by lowering duties on their other exports; failing compensation, the exporting countries are entitled to retaliate by imposing higher barriers to their imports from the country concerned.
- During and after the Tokyo Round, negotiations have taken place in GATT aimed at drawing up a "safeguards" code which would clarify and elaborate the Article XIX rules, but it has not been possible to reach agreement. These efforts will undoubtedly continue. Meanwhile, Canada and the United States, on a bilateral basis, concluded in 1983 an "understanding" on the use of safeguard measures by either country affecting imports from the other; among other things, this understanding sets out a more elaborate process of advance consultation.
- The Multifibre Arrangement (MFA), developed within the GATT in 1973, represents a derogation from the MFN principle embodied in the normal Article XIX safeguard rules; it essentially permits industrialized countries to control imports of textile and clothing products from individual "low-cost" producing countries. The MFA permits pairs of importing and exporting countries to conclude "voluntary" export restraint arrangements (or VERs as they are often called) for products which are considered to give rise to "market disruption" in the importing country. The MFA has been renewed and extended several times, in progressively more restrictive forms. As discussed below, in the summer of 1986 it was renewed again, for a five-year period.
- The GATT itself does not contain any rules which limit the freedom of governments to give a preference to domestic suppliers in purchasing goods and services for their own use. During the Tokyo Round a separate "Code on Government Procurement" was drawn up and adopted

by a group of countries, including Canada. Under this code, the signatories undertake to extend what amounts to "national treatment" to firms in other countries in bidding for contracts with a specified list of government entities. Generally, these lists exclude purchases by the military, by government-operated transportation and telecommunications systems, and by sub-national governments (e.g., provinces and municipalities).

- Finally, note should be taken of the rights of GATT member countries under Article XXIV to form free-trade areas and customs unions, whereby the members of such groups may, under specified conditions, remove tariffs and other barriers to trade on a preferential basis among themselves. On the basis of Article XXIV, a process of economic integration has taken place in Western Europe over the past two decades, centered in the European Economic Community; the result has been the creation of a large free trade area for industrial goods which now embraces the whole of Western Europe. As discussed below, Canada and the United States launched in 1985 bilateral negotiations aimed at removing tariff and other barriers to their cross-border trade. Should these negotiations succeed, the two governments will presumably present the resulting agreement as a free-trade area in the sense of GATT Article XXIV.

Strengthening the GATT System

The GATT has provided a framework for the progressive liberalization of world trade since the end of the Second World War, especially in the reduction of tariffs by the industrialized countries. GATT rules have also imposed constraints on the use of non-tariff and other measures on imports for protective purposes, but have permitted the use of special measures to restrict imports under certain specified conditions. Many countries, including Canada, have on occasion stretched or avoided the rules of GATT in order to give additional protection to domestic producers. But more serious over the past decade has been the increased use of trade restrictive measures outside the GATT (often in the form of "voluntary export restraints" and "orderly marketing arrangements" concluded on a bilateral basis between exporting and importing countries) as well as the growing number of controls under the MFA on trade in textile and clothing products. Thus, while the GATT rules and disciplines continue to encourage the further liberalization of world trade, and continue to exert real constraints on the use of protective trade measures, the system has come under considerable strain in recent years. The new round of GATT negotiations, now in prospect, should serve to strengthen the GATT system, to broaden and tighten those rules governing the use of trade restrictive measures, and to encourage further progress towards global trade liberalization.

Trade Liberalization Under the GATT

The following sections examine the progress that has been made within GATT towards trade liberalization in recent years; the counter-current of trade protection that has emerged during the past decade will then be discussed.

Tariffs

The Tokyo Round of multilateral trade negotiations (MTN) held in Geneva during 1973-79 represented an advance in trade liberalization comparable to that achieved in the 1963-67 Kennedy Round, or even during the 1947 negotiations that established the GATT.[3] As shown in Table 4.2, the Tokyo Round will result in cuts in the developed country group's tariffs on industrial products by an average 35 per cent; these will mainly be implemented in stages over the period 1980-87. By 1987, the average level of these tariffs will be reduced to between 5 and 8 per cent.

These cuts in tariffs as a result of the Tokyo Round improved access for a range of Canadian exports to foreign markets, particularly the U.S. market. Canada's own tariffs on industrial products were cut by an average of 38 per cent, lowering the average level of tariffs to 8.3 per cent, which will nevertheless remain among the highest of any industrialized country. But relatively high rates will remain in effect in other countries as well, covering some important sectors of world trade, especially on manufactured consumer goods such as footwear, textiles, clothing, processed foods, and certain petrochemical products. Moreover, the tariff systems of most developed countries, including Canada, embody significant elements of "escalation", whereby the rates on processed and finished products are higher than those on the raw materials from which they are made, thereby according higher levels of "effective protection" for processing industries than is indicated by the nominal rates on the finished products of these industries.[4]

The Tokyo Round left intact the "Generalized System of Preferences" (GSP), whereby the developed countries, individually, extend lower and preferential rates on imports from less developed countries. Most countries do not extend these benefits to "sensitive" products such as footwear, textiles and clothing; further, many countries (but not Canada, so far) use tariff quotas, which impose quantitative limits on imports enjoying the lower rates from less developed countries. The lower rates can be, and often are, withdrawn by importing countries without consulting with the exporting countries concerned. Appendix Three shows the countries accorded GSP treatment by Canada (i.e., those whose exports are eligible for the General Prefential Tariff or GPT). The accepted classification of countries according to per capita income is given in Appendix Four, for comparison. A major issue in GATT discussions for the past several years and in the prospective new round of multilateral trade negotiations is the "graduation" of the more advanced developing countries to full GATT obligations. This would involve among other things the removal of GSP treatment for these countries.

TABLE 4.2
Post-MTN Average Tariffs on Industrial Products

Country	Depth of Cut*	Raw Materials	Semi Manu-factures	Finished Manu-factures
U.S.A	31	0.2	3.0	5.7
Canada	38	0.5	8.3	8.3
Japan	49	0.5	4.6	6.0
EEC	29	0.2	4.2	6.9
Sweden	28	0.0	3.3	4.9
Tariffs of nine industrial countries combined	34	0.3	4.0	6.5

* Depth of cut is for all industrial products; depth of cut and average post-MTN rates are weighted on the basis of actual customs collections.

Source: GATT, Director-General, *The Tokyo Round of Multilateral Trade Negotiations, Supplementary Report* (January 1980).

It should also be noted that over the past decade other new elements of tariff discrimination have emerged in world trade, notably as a result of the enlargement of the European Economic Community, by the free trade agreements concluded by the Community with the individual members of the European Free Trade Association (EFTA) and with neighbouring Mediterranean countries, and by the tariff preferences extended by the Community to former colonial territories in Africa, the Caribbean and the Pacific area. More recently, the United States has departed from its traditional MFN policies, and has concluded agreements with a group of Caribbean countries and with Israel, to remove U.S. tariffs on many imports from these countries. In early 1986 the Canadian government announced a new trade and development program for the Commonwealth Caribbean countries, which includes duty-free, preferential entry into Canada of a range of products from those countries. A number of "sensitive" products are excluded, including textiles, clothing, footwear, luggage, handbags and leather garments.[5]

Thus, contrary to a widely held impression, tariffs continue to represent significant barriers to world trade; and where tariff preference exist, these can introduce distortions which can damage the interests of other countries. There is accordingly a good deal of room left for tariff liberalization, and further efforts to cut tariffs can be expected to be an important dimension of the forthcoming round of GATT negotiations.

Non-Tariff Barriers and the GATT Codes

As noted earlier, the GATT rules have consistently imposed an important discipline on the use of non-tariff measures to restrict trade for protectionist and other reasons. These disciplines were extended and elaborated considerably as a result of the Tokyo Round, mainly through the conclusion of new agreements, or codes, which were accepted in principle by all of the developed countries and a number of less developed countries as well, as shown in Appendix Five.

The Tokyo Round codes of special interest from the perspective of this study are the following:

- *Code on Subsidies and Countervailing Duties*. This code reaffirms the rule in GATT Article VI (noted above) that countervailing duties can be imposed on subsidized imports only when there is evidence that these imports are causing or threatening "material injury" to an established domestic industry, or will retard "materially" the establishment of a domestic industry. The code also includes a new illustrative list of export subsidy measures that are prohibited under GATT Article XVI, and extends the prohibition to cover minerals, in addition to manufactured products. The adoption of this code led the United States to bring its legislation governing countervailing duties into conformity with GATT rules, thus meeting a long-standing objective of Canada and many other countries. A so-called "second-track" procedure was also established by the code; it elaborates on the GATT's consultation and dispute settlement procedures in the area of subsidies and provides for multilaterally authorized countermeasures in the event of an unresolved dispute.

- *Code on Anti-dumping Duties*. Related changes were also made to the 1967 GATT Code on Anti-dumping Duties, to bring it into line with the new Code on Subsidies and Countervailing Duties.
- *Code on Customs Valuation*. This code aims at an international standardization of methods of valuing imports for customs purposes. Its adoption involved some substantial changes in Canadian and U.S. legislation and practices in this area. As discussed in the next chapter, Canada implemented this code as of January 1, 1985.
- *Code on Import Licensing*. This code lays down a number of rules to be followed in the administration of import-licensing systems, where these exist, and is designed to reduce any unnecessary restrictive effects arising from the operation of these systems. A number of countries, for example, are considered to administer their import-licensing systems in unduly restrictive ways, by employing complicated procedures relating to applications for import permits or by deliberately delaying the issue of permits.
- *Code on Technical Barriers to Trade (Standards)*. Under this code, signatory countries undertake to administer in accordance with agreed rules their regulations for product standards, including testing and certification requirements, so as to minimize unnecessary restrictive effects on imported goods. The code is also aimed at further development of common standards on an international basis and the adoption of these standards by national governments.
- *Code on Government Procurement*. This code sets new international rules in an important and growing area of international trade. It is aimed at reducing discrimination against imports by government bodies in

their purchases of goods and related services, which is a widespread practice in many countries. Compliance with this code requires changes in legislation and practices in many countries, which could result in significant liberalization of world trade. The coverage of the new code is somewhat limited; for example, most defence procurements and procurement by sub-national governments are both excluded. Further negotiations are being held with the intention of enlarging the range of goods the code covers, and possibly extending the code to cover certain services, but significant progress is unlikely outside the context of a new round of trade negotiations.

Canada has signed all of the codes. Taken together, the Tokyo Round codes represent a significant enlargement and strengthening of the GATT system. These new trade rules are aimed generally at the further liberalization of world trade, although some observers have argued that the outcome of the Tokyo Round was to codify existing trade restrictive systems on an international basis, as much as it was to curb the protectionist effects of these systems. Following the Tokyo Round, the United States enacted the Trade Agreements Act of 1979, designed in part to align U.S. trade legislation with the new GATT rules; by no means all the changes in U.S. legislation were directed at trade liberalization, and the U.S. trade policy system has become considerably more complex and legalistic. As will be discussed in the next chapter, Canada also made a number of significant changes in its legislation governing trade policy, notably under the 1984 Special Import Measures Act; and while some of these changes are aimed at liberalizing Canada's trade system, others involve the addition of further restrictive elements.

Protectionism in the World Trade System

Several years ago the term "new protectionism" enjoyed a certain popularity, reflecting a surge of protectionist measures introduced during the mid-1970s to further limit exports of textiles and clothing from "low cost" suppliers, to maintain or extend trade restrictions in the agricultural sector, to impose new controls on trade in footwear, to manage trade in steel products, to limit exports of cars from Japan, and so on.[6]

By the mid-1980s protectionism in the world trade system had generated widespread concern, and indeed threatened the integrity of the GATT system. The recession of the early 1980s gave rise to stronger pressures in many countries for additional protection to domestic producers against international competition. In the mid-1980s these pressures became especially strong in the United States as a result of poor export performance and the appreciation of the U.S. dollar in recent years in relation to most other currencies. The economic difficulties that have been reflected in protectionist measures in almost all countries have still deeper roots, however, in the external shocks and structural economic changes of the past 15 years.

At the risk of over-simplifying a very complex set of interrelated developments, the major economic shocks and structural changes that have affected the Canadian economy since the early 1970s may be described as follows:

- the two oil price shocks of the 1970s and the subsequent government policy responses. The Canadian policy of artifically holding down oil prices, while pursuing initially expansionary fiscal and monetary policy, effectively masked market signals and probably aggravated the difficulty of adjusting to the original relative price changes.
- the collapse of the fixed exchange rate regime in the early 1970s. The resulting system of flexible rates has to some extent resulted in pressures on the "real" side of the economy, due to exchange-rate variations, which were formerly absorbed by changes in the level of monetary reserves.
- global integration of investment, production facilities and distribution systems. Developments in communications and transportation technologies, as well as capital markets and management systems and structures, have made possible extensive "internationalization" of production processes and world-wide relocation of industrial activity.
- the pronounced slowdown in productivity growth across the industrialized world starting in 1973. Canada was particularly vulnerable to this still somewhat puzzling phenomenon, which varied significantly across industries and contributed to changes in Canada's comparative advantage and global competitiveness.
- the increasing competitiveness and export orientation of manufacturing industries in the newly-industrialized countries (NICs). This well-documented phenomenon, together with attempts by other less developed countries (LDCs) to ease their debt-service burdens through increased exports, continues to be a major source of change in the pattern of Canadian trade.
- increased variability in Canada's terms of trade over the 1970s, which can be expected to continue through the

1980s. A range of developments, including the recent recession, the emergence of new sources of production of resource products in developing countries, the increasing politicization of trade and trade arrangements, and demands for security of supply have had marked effects on the relative prices of Canadian imports and exports. While potentially offsetting, these developments have instead produced large swings in Canada's terms of trade over both the short and medium term.

- rapid technological change in an increasingly wide range of industries. Technological breakthroughs, ranging from advances in the power and storage capacity of microprocessors and memories to applications such as CAD/CAM and robotics, have caused dramatic production cost fluctuations, particularly in the manufactured goods sector, in Canada and abroad.
- the growth in the importance of the service sector within the domestic economy. The capacity of service industries to absorb labour displaced from manufacturing and primary industries and the influence on overall economic performance of apparently lower productivity growth in service industries are among the concerns raised by this phenomenon.
- dramatically higher inflation rates in the 1970s and early 1980s compared to those prevailing in earlier decades. The interference with price signals in the marketplace that resulted was serious enough that expectations regarding future inflation may still be above historical levels.

Underlying these adjustment pressures is a more fundamental aspect of growing global economic interdependence. As economic development has proceeded since the Second World War, the industrial capacities of the world's trading nations have become increasingly similar in terms of the capital, skilled and unskilled labour, R&D capabilities and other economic resources available to each country. Together with the post-war growth of world trade, this convergence of global industrial capacity has increased the sensitivity of trade, production, and employment in domestic industries to developments in cost or demand conditions at home or abroad. Whether or not these developments are the result of government policies, as many undoubtedly are, their effects on national economic structures are magnified in a context of converging industrial capacity. The international impact of certain changes (such as variations in North American consumers' tastes for automobiles or increases in labour unrest in

Great Britain) on a domestic industry's international competitiveness might have seemed insignificant in earlier years. However, the impact of those same changes in today's global environment may be sufficient to displace former world leaders from their positions of preeminence in the global marketplace.

The protection added to the trade system over the past 15 years, as a response to external shocks and structural changes, was superimposed on a body of trade restrictions that has persisted all along, despite the substantial advances toward world trade liberalization discussed above, and has encompassed both tariff and non-tariff measures.

Current Extent of Protectionism

As to the outcome of these developments at any one point in time, it is impossible to measure accurately the extent of protectionism in the international trade system. Some general assessments, however, have been made. In a major study on protectionism, the OECD (1985) concluded that in 1983, products subject to non-tariff barriers accounted for approximately 30 per cent of manufactured-goods consumption in its member countries, up from 20 per cent in 1980. This is a conservative estimate, based on a relatively narrow definition of non-tariff barriers. Other studies put the coverage of non-tariff barriers as a higher percentage of manufactured imports. And these figures do not include agricultural trade, where most countries restrict imports in one way or another and, quite frequently, subsidize exports.

Within the most heavily protected groups, the extent of protectionism has increased dramatically. Taking steel, automobiles, motorcycles, consumer electronics, footwear, textiles and clothing together, the number of non-tariff barriers employed in OECD countries increased by 400 per cent from 1968 to 1983. Only about one per cent of automobile trade was restricted before 1973, excluding trade within the European Economic Community. A decade later, the share of automobile trade affected by non-tariff barriers had jumped to over 50 per cent. Similar dramatic increases in the scope of protection can also be found in steel. Without attempting to measure the volume of trade affected or the economic causes and impact of each of these policies, the main instances of protectionism in the world trade system can be identified as follows:

- restrictions on imports of agricultural products, mostly temperate zone products, by many industrialized countries including Canada (the products include beef and other meat, dairy products, wheat and other grains, poultry and eggs, sugar, oil seeds and vegetable oils);

- controls on imports of textile and clothing products by the industrialized countries (including Canada), especially those under bilateral agreements concluded within the Multifibre Arrangement with developing countries and state-trading countries in Eastern Europe;
- controls on imports of footwear into the European Community, Canada, Australia and Japan and the threat of controls by the United States, aimed mainly at a number of "low-cost" developing countries and, to some extent, Italy and Spain;
- restrictions imposed mainly by European Community countries and also, until recently at least, by the United States, on imports of television sets and other electronic equipment from Japan, Korea and Taiwan;
- a variety of control systems and quantitative restrictions by the United States on imports of steel, especially from the European Community (although some Canadian exports are also restricted), and controls by the Community and Australia on imports of steel from a number of countries, including Japan;
- controls on exports of automobiles from Japan to the European Community and, for certain periods, to the United States and Canada under a variety of bilateral export restraint arrangements, and Australia's restrictions on imports of automobiles;
- high tariffs maintained by many industrialized countries, including the United States and Canada, on imports of textiles, clothing, footwear and a variety of consumer-type goods;
- tariffs on the processed forms of raw materials by many countries, especially Japan and the European Community, that give high levels of "effective protection" to their domestic processing industries;
- comprehensive and severe import restrictions maintained by many developing countries for balance-of-payments reasons, which serve also to protect domestic producers from international competition;
- the trade and economic systems of state-trading countries, generally; and
- the growing recourse to "counter-trade" or barter.

There is also evidence of an increase in the use of "contingent-protection" measures in the United States, the European Community and Canada. As noted earlier, these measures include anti-dumping duties, countervailing duties, and "safeguard" measures against an upsurge of imports (whether taken on the basis of GATT Article XIX or not – see, for example, Tables 2.1 and 2.2 in this volume). The use of such measures reflects, in part, the more legalistic and complex set of GATT rules that emerged from the Tokyo Round and have been translated into new trade legislation, procedures and policies, especially in the United States and Canada.

The widespread restrictions on international trade in textiles and clothing deserve special concern. The Multifibre Arrangement (MFA), adopted in 1973 within the GATT framework, was built upon earlier international arrangements within the GATT permitting the use of special restrictions on trade in cotton textiles. The MFA extended these arrangements to include trade in synthetic and wool textiles and garments, and it elaborated the restrictive elements of the system. In essence, the MFA represents a derogation from the normal rules of GATT Article XIX by permitting restrictions to be imposed on a bilateral basis and without compensation by the importing country. The MFA has been successively extended, and in the process has become progressively more restrictive. Moreover, importing countries including Canada have made progressively greater use of the MFA by concluding restrictive agreements with a growing list of low-cost exporting countries in the Third World and Eastern Europe. There is evidence of growing opposition to the MFA, especially on the part of developing country exporters. Nevertheless, in the summer of 1986 the MFA was extended for a further period of five years, and the list of products which it covers was also extended.

Perhaps the most disturbing recent development in international trade, however, has been the trend toward what is sometimes referred to as "managed trade" outside the GATT system. The GATT Secretariat in its annual report *International Trade 1984/85* (Geneva, 1985) described this recent trend as follows:

> The greater part of world trade continues to take place under the rules and disciplines of the GATT. But it must also be acknowledged that a growing number of measures are being taken which contravene countries' commitments under the GATT.
>
> Nowhere is this trend more evident than in the spread of agreements whose purpose is to restrict competition by sharing markets, even if their names – voluntary export restraint agreements, orderly marketing agreements, "consultation", "voluntary understanding" or "export forecase" agreements, and so

> forth – seem to suggest otherwise. These are, in reality, discriminatory quantitative restrictions, whether on imports or exports, which are not only inconsistent with countries' GATT obligations, but also frequently at odds with national anti-trust laws. Increasingly applied in the context of a sectoral approach to resolving trade problems, the use of these instruments is approaching a stage where an innocent observer could be forgiven for concluding that governments have decided that bilaterally managed trade on the pattern of the 1930s is preferable to multilateral liberal trade.

The overall increase in protectionism within the world trade system is alarming but should not be exaggerated. There has not so far been any general retreat into protectionism. Large volumes of international trade flow on an MFN basis, whether free of restrictions and tariffs or subject to progressively lower tariff barriers. At successive Summit meetings, leaders of the major trading countries, including Canada, have stated their determination to resist protectionist trade policies and their firm support for the GATT multilateral trade system. The prospective new round of multilateral trade negotiations within GATT during the last half of the 1980s will provide fresh opportunities to roll back existing protection in the trade system, and should discourage the introduction of new protectionist measures by the participating countries. However, there is a danger that new GATT negotiations could be aimed as much at legitimizing existing protection as removing it. For Canada, successful negotiations aimed at the liberalization of cross-border trade with the United States would have earlier and more important consequences in terms of reducing protection than would a new GATT round. These negotiations are discussed in detail in Chapter Seven.

GATT Negotiations in the 1980s

The prospective round of GATT tariff and trade negotiations during the last half of the 1980s will offer opportunities for Canada and other GATT members to reduce trade barriers, turn back protectionism, and improve the rules governing international trade on a broader multilateral basis. This new round of GATT negotiations has been strongly supported by Canada, the United States, Japan and, more recently, the European Community. The developing countries have been generally supportive but, as noted below, several of them have diverging views on the agenda for the negotiations. And as discussed earlier, despite the successes of the GATT system, severe strains have emerged within it, especially since the mid-1970s. However, while many GATT countries may have implemented policies and practices that violate the letter and spirit of GATT rules, none appear prepared to risk the consequences of a breakdown of the system; indeed the need for new initiatives to strengthen and improve the system has become more widely recognized.

In 1982 a meeting of GATT member countries at the ministerial level laid out a work program which, in effect, set the stage for the further round of GATT negotiations. Because of the prevailing and difficult world economic conditions, this meeting did not agree on rolling back protectionist trade measures already in place, nor did it produce commitments on some sort of standstill on additional protectionism in the system. Furthermore, the meeting did not result in any agreement on the long-standing issue of improving GATT rules and procedures governing the use of safeguard import measures to protect domestic producers against unusually severe import competition. The meeting was similarly unsuccessful in reaching agreement on a U.S. proposal to extend GATT rules to cover international trade in services, largely because of opposition from a number of developing countries but also because of the lack of clarity regarding the issues involved. At the same time, the ministers launched a series of studies and other activities aimed at future efforts to liberalize trade and/or improve the GATT rules relating to agricultural products, textiles and clothing, natural resources, tropical products, trade in counterfeit goods, and the resolution of disputes.

Momentum for opening a new round of GATT negotiations was subsequently accelerated by periodic meetings of a "quadrilateral" group of trade ministers from the United States, the European Community, Japan and Canada. In the summer of 1985 the United States was instrumental in arranging a special session of the GATT contracting parties, which started September 30th of that year and made plans for the creation of a special committee "to prepare the basis for the launching of a new round".

At the November 1985 meeting of the GATT Contracting Parties in Geneva, the decision was taken to formally establish a Preparatory Committee to help launch the new round. The Committee was charged with determining "the objectives, subject matter, modalities for and participation in" a new round of multilateral trade negotiations, which are expected to be launched formally at a Ministerial Meeting in Uruguay in

September 1986. The Economic Summit in Tokyo and the OECD Ministerial meeting, both held in April 1986, offered positive encouragement by underscoring the importance of a new round and by emphasizing the need to include on the agenda new issues such as services, intellectual property and foreign investment.

Strong support for a new round of GATT negotiations was given in a report published in the spring of 1985 of a group of seven leading authorities appointed by the GATT Director General to study and report on problems facing the international trade system. In a report entitled *Trade Policies for a Better Future: Proposals for Action*, the group proposed that the new round should be directed primarily at strengthening the multilateral trading system and further opening world markets. The report said that although open international trade is the key to sustained economic growth, the world market is not opening up; "instead, it is being choked by a growing accumulation of restrictive measures. . . . the trading rules set under the General Agreement on Tariffs and Trade are increasingly ignored or evaded". The following were its specific recommendations:

- Agricultural trade should be based on clearer and fairer rules. "Today, the most efficient agricultural producers . . . have good reason to feel cheated of their rights under the international trading system".
- Textiles and clothing trade should be subject to the normal rules of GATT, and the present "multifibre arrangement" should be phased out.
- The GATT codes governing non-tariff distortions of trade should be improved and vigorously applied to make trade more open and fair.
- A time-table and procedures should be established to bring into conformity with GATT rules "illegal" trade measures like voluntary export restraints and other discriminatory trade controls.
- The subsidy rules need to be revised, clarified and made more effective.
- The rules permitting customs unions and free-trade areas need tightening up to prevent abuse.
- Emergency "safeguard" protection should be time-limited, non-discriminatory, linked to adjustment assistance and subject to continuing surveillance.
- National trade policies should be subject to regular scrutiny and governments should be cross-examined by a specially convened GATT body.
- In each country, the costs and benefits of trade policy actions should be systematically analyzed and publicized,

and public support for more liberalized trade should be fostered.

- The GATT's dispute settlement procedures should be strengthened by establishing a permanent roster of non-governmental experts to examine disputes, as well as by improving the implementation and follow-up of panel recommendations.
- A permanent ministerial-level body should be established within the GATT to ensure continuous high-level attention to, and negotiations on, emerging trade problems.
- At both national and international levels, trade, financial, and macroeconomic policies need to be made mutually consistent and reinforcing in recognition of the interdependence of trade, exchange rates, international debt, and monetary and fiscal policies.
- A new round of GATT negotiations should be launched with the primary objectives of strengthening the multilateral trade system and further liberalizing world trade.
- Developing countries should, in their own interest, concentrate less on securing special treatment in the GATT and focus more on bringing about their full integration into the trading system.
- Governments should look at ways of expanding trade in services and should explore whether multilateral rules can be appropriately devised for this sector.

The recommendations in the above noted report *Trade Policies for a Better Future* are generally well in line with Canadian views and policies—except perhaps the recommendation for phasing out the Multifibre Arrangement and bringing trade and textiles back within the normal GATT rules. From the beginning, Canada has been among the strongest supporters of GATT as a system of trade rules, as a framework for trade liberalization, and as an international trade organization, even though particular Canadian trade measures have been the subject of criticism by other GATT members, for example, in 1976 when global quotas were imposed on imports of clothing.

Certainly, Canadian government support for a new round of GATT negotiations has been positive and clear. One issue of great importance to Canada and other major agricultural exporters arises from the inability of the GATT system to discipline national systems for the support of farm prices and farm incomes. Over recent years new distortions have emerged in world markets for grains, dairy products, meat, sugar and other products; large exporters like the European Community and the United States are heavily subsidizing exports of their surplus production, and trade disputes in this area have become particularly intense. Another issue of special interest to Canada, as well as to other resource-exporting countries, involves systems of "tariff escalation", whereby import duties are higher on processed forms of resource products than on the raw materials. This leads to high—often surprisingly high—levels of "effective protection" for the processing activities in the importing country, and discourages processing activities in the exporting country.

Canada could also have substantial interests in the development of new international rules to govern trade in services, both as an important importer and an exporter of services of many kinds. Further, it might be expected that Canada would wish a new GATT round to lead to a strengthening of the institutional elements of the GATT system, including its procedures for the resolution of disputes. It would be in the Canadian interest, as well, to support efforts to bring the more advanced developing countries more fully under the normal rules of GATT, both as a means of exerting greater discipline over their export policies and also as a means of liberalizing their import systems.[7]

Notes

1. In the Autumn of 1983 the Department of External Affairs issued a comprehensive survey of *Canada's Trade Policy for the 1980s: A Discussion Paper* and its companion study *A Review of Canadian Trade Policy: A Background Document to Canadian Trade Policy for the 1980s.*

2. A general guide through the GATT and other agreements and institutions which make up the world trade system has been written by one of the authors; see Frank Stone, *Canada, the GATT and the International Trade System.*

3. The best comprehensive account of the outcome of the Tokyo Round is in a report issued by the GATT Director General in 1979 and in a supplementary report issued in 1980; see References.

4. The tariffs of many countries including Canada thus continue to represent an important and pervasive form of trade protection.

5. This program, known as "Caribbean" is described in Department of External Affairs, "Caribbean", *Communique,* February 17, 1986.

6. It is difficult to find a comprehensive, authoritative account of protectionist measures affecting world trade; one such survey, focussing on measures affecting developing countries, was prepared in 1982 by the Commonwealth Secretariat in London, England; *Protectionism: Threat to International Order*; see References.

7. In July 1985, the Canadian government sent to the GATT Director General "some initial Canadian views" on the prospective multilateral trade negotiations. See Department of External Affairs, "Canada Submits Initial Views to the GATT on the Upcoming Multilateral Trade Negotiations", *Communique* 110 dated July 19, 1985.

Chapter 5:

Instruments of Canadian Import Policy

> And finally, a policy of trade restrictions is a treacherous instrument even for the attainment of its ostensible object, since private interest, administrative incompetence and the intrinsic difficulty of the task may divert it into producing results directly opposite to those intended.
>
> John Maynard Keynes, *The General Theory of Employment, Interest and Money*, 1936

The previous chapter reviewed the international context within which Canadian import policy is formulated and operates, including the main GATT rules which constrain the policies and practices of Canada as well as other GATT member countries. This chapter will review the principal instruments governing Canada's import system, how these operate, and recent changes in the system. The main points which emerge are as follows:

- The protective effect of the Canadian tariff system has been greatly reduced since the Second World War, but is still significant for many products. In recent years, greater use has been made of quantitative controls in imports for protective purposes, for example, to control imports of clothing, textiles, footwear, Japanese cars, and a number of farm products.
- Under the Customs Tariff, most imports enter at most-favoured-nation rates, which may be zero. Preferential duties are extended to a range of imports from the developing countries, but are withheld from a number of "sensitive" products, such as textiles, clothing, footwear and colour television sets.

- The Customs Act provides authority not only for the administration of the customs system but also for controlling the entry of goods into Canada under an array of other legislation concerned with health, labelling, product standards, etc.[1]
- Canada's system of valuing goods for duty purposes was radically altered at the beginning of 1985, involving a change-over from the use of "fair-market-value" and "ministerial prescriptions" to the use of "transaction value" as a basis for establishing the amount of duty.
- Canada, along with the United States and other GATT countries, is in the process of radically altering its system of classifying goods for customs purposes to conform to the "Harmonized System" developed by the Customs Cooperative Council (CCC).
- Canada's non-tariff barriers to imports can be divided into several categories. One consists of virtually permanent measures, such as the embargos and quotas on a number of agricultural products and the prohibition on imports of used automobiles. Another consists of "contingent measures", theoretically temporary, such as anti-dumping duties, countervailing duties and safeguard import restrictions. A third includes a variety of measures, such as those designed to support health, safety and product standards which are not intended to provide protection for domestic producers, but may have this effect.
- Prohibitions and restrictions on agricultural products are, for the most part, integral elements of supply management programs, such as those in the dairy sector.
- Controls on imports of alcoholic beverages are exercised by the provincial governments, under monopoly-type purchasing and marketing systems.
- Canada's controls on imports of textiles and especially clothing from "low cost" countries are highly restrictive, and are operated mostly by bilateral agreements within the framework of the GATT Multifibre Arrangement (MFA); in addition, imports of textiles and clothing products pay duties in the 20-25 per cent range.
- Global quotas on most footwear imports were imposed during 1977-81; they were removed on imports of leather footwear in late 1981 but reimposed in 1982; in late 1985 quotas were lifted, except for those limiting imports of womens' and girls' shoes, which will be phased out by late 1988.

- The 1984 Special Import Measures Act is of special interest; it contains a mixture of changes to earlier anti-dumping legislation; some are in a liberal direction, but others are designed to make the system more restrictive, e.g., in regard to dumped imports of capital goods.
- Responsibility for the administration of Canada's import system is spread among a complex of federal departments and agencies; the system was somewhat simplified by the reorganization in 1982 of the Department of External Affairs, but a further concentration of responsibility for trade policy appears to be needed. As well, the government should be encouraged to proceed with the amalgamation of the Canadian Import Tribunal, the Tariff Board, and the Textile and Clothing Board.

The Customs Tariff

The Customs Tariff has a long history, predating Sir John A. MacDonald's "National Policy" adopted in 1879 which raised tariff walls to protect Canada's fledgeling manufacturing industries, located largely in central Canada. It is a separate statute that provides the basic authority for the government to levy customs duties on imports. A lengthy Schedule A sets out the duties currently in effect, according to product and country of export. Schedule B contains a list of goods that can be entitled to "drawbacks" of duties when imported for use in manufacturing and other specified purposes, for example, steel used in the manufacture of cutlery. Schedule C contains a short list of goods whose importation is prohibited; the list includes, among other products, margarine, second-hand motor vehicles and second-hand aircraft, as well as various endangered species of flora and fauna.

Schedule A lists several thousand products, with rates of duty under five columns headed as follows:

- British Preferential
- Most-Favoured-Nation
- General Tariff
- General Preferential Tariff
- U.K. and Ireland

It shows the duties payable in ad valorem or in specific terms, as well as zero rates.

Most imports enter under the most-favoured-nation (MFN) rates. The highest rates are under the General Tariff, which now is applicable only to those very few countries that are not GATT members or have no other trade agreements with Canada, such as North Korea. There are separate "U.K. and Ireland" rates, but these are temporary, and applicable only while these rates are being raised to MFN levels following the accession of the U.K. and Ireland in 1973 to the European Community. The British Preferential (BP) rates have a long history and apply generally to Commonwealth countries; they are lower than the MFN rates, but not uniformly so, and are often free. Finally, there are the General Preferential Tariff (GPT) rates, which were introduced in 1973 and apply to virtually all of the approximately 160 developing countries and territories that have this status in the United Nations. (These are listed in Appendix Three.) The rates are either the same as the BP rates or one-third below the MFN rates, whichever is less. However, not all goods are eligible; the exclusions include important consumer goods such as most clothing, textiles and footwear, and a variety of food products, especially processed foods.

Changes in tariff rates are by custom presented to Parliament in the form of a Ways-and-Means motion at the time of annual budgets, even though the legislation permits duty reductions by the Governor-in-Council without reference to Parliament. As noted earlier, because most MFN rates are "bound" against increase in the GATT, they are difficult to increase and involve negotiations with the exporting countries concerned. By contrast, Canada (like other countries) has no international commitment to maintain the lower GPT rates or, generally, the lower BP rates, or even to consult the countries concerned before changing them. Canadian producers can petition the Tariff Board to have GPT rates removed for particular products, or to have quotas imposed on the quantities of a particular product eligible for entry at the lower GPT rate from a particular country; such petitions are the subject of inquiries by the Tariff Board, which makes its recommendations to the government. Only a few such petitions have been received, and even fewer have led to the withdrawal of GPT rates by the government. These include rubber footwear and colour television sets; a petition for the withdrawal of the GPT rate on scissors was received by the Tariff Board in early 1986.

The Customs Tariff includes many other complex features, apart from the rate structure. Duties may be remitted for machinery used by Canadian manufacturers under the Machinery and Equipment Program. Certain goods may be imported duty-free for "end use" by Canadian manufacturers, farmers and fishermen. There are provisions for the temporary elimination of duties on goods which are not currently made in Canada; other goods of a class or kind not made in Canada are free of duty on a more permanent basis. Further, duties may be remitted on a variety of imports under special conditions; notably, duties on imports of motor vehicles and original parts from the United States are remitted when imported by vehicle producers who meet the conditions with respect to production and content under the Canada-U.S. Automotive Agreement, or from other countries under comparable conditions.

Another notable feature of the Canadian tariff system is the provision for seasonal duties on fresh fruit and vegetable imports. These products, largely shipped from the United States, are imported duty-free for most of the year but can be subject to relatively high duties during the Canadian growing and marketing season. These seasonal duties can remain in force for varying periods of weeks or months, as may be decided by the Minister of Agriculture.

The classification of goods for customs purposes plays an important role in the system, since the rates vary considerably among the products listed in Schedule A. As discussed below, the traditional Canadian classification system, along with the U.S. system, have differed in many respects from the one used by most other countries within the framework of the Customs Cooperation Council (CCC) in Brussels. Canada, together with the United States and other GATT countries, is now in the process of changing over to the "Harmonized System" developed in the CCC.

As discussed in the previous chapter, the protective effect of Canada's tariff system, like those of most other developed countries, has progressively declined in overall terms since the Second World War, as an outcome of negotiations within the GATT, especially during the Kennedy and Tokyo Rounds. When the staged Tokyo Round cuts are fully implemented in 1987, the average Canadian tariff on dutiable imports will be around 9 per cent, with about 70 per cent of all imports free of duty. (Hines 1985, p. 44) By contrast, import duties represented about 21 per cent of the value of dutiable imports in 1946, and about 17 to 18 per cent after the first round of GATT negotiations in 1947. (Stone 1984, p. 64) (Averages of U.S. tariffs have fallen even more steeply, from around 32 per cent of the value of dutiable imports in 1941-45 to around 6 per cent when the Tokyo Round cuts are implemented.)

Measurements and comparisons of average tariffs on dutiable imports can be misleading. For one thing, they mask the effects of high rates, which may present formidable barriers to imports or block imports entirely. As shown in Table 5.1, relatively high Canadian duties remain in place for a remarkable number of goods. Rates above 20 per cent are imposed on most textiles,

TABLE 5.1
Illustrative List of High Canadian Customs Duties

Product	Tariff Item	MFN Rate	GPT Rate
Leather garments	61120-1	22.5	15.0
Clothing	53305-1	22.5	55.0
Man-made textile products	various	25.0	-
Gloves and mittens	56830-1	25.0	16.5
Cotton sheets and towels	various	22.5	-
Blankets, wool and synthetic	53405-1	22.5	15.5
Hats and caps	56915-1	20.0	14.5
Footwear	61105-1	23.4	-
Purses	62300-3	17.5	12.0
Clocks	36800-1	22.5	15.0
Watches	36600-1	11.3	9.0
Scissors, shears	42906-1	17.5	Free
Tableware	28700-1	11.3	Free
Glass tableware	32606-1	20.0	10.0
Tablespoons, knives and forks	42902-1	17.5	12.5
Bicycles	43900-1	13.2	13.5
Baby carriages	43930-1	12.5	9.0
Golf clubs, tennis raquets and baseball bats	51100-1	13.5	9.0
Skis and fittings	51110-1	13.6	9.0
Sailboats, skiffs and canoes	44003-1	15.6	10.0
Perfume	23400-1	14.5	9.5
Jewellery	64700-1	16.4	10.5
Toys	62410-1	14.6	9.5
Nuts of all kinds	43000-1	13.9	7.5
Wood screws	43010-1	15.0	10.0
Hand tools	43120-1	11.3	9.0

TABLE 5.1
(Continued)

Product	Tariff Item	MFN Rate	GPT Rate
Softwood plywood	50715-4	15.0	10.0
Automobiles (except under Auto Agreement)	43803-1	9.2	Free
Automotive parts (except under Auto Agreement)	43829-1	9.2	Free
Washing machines	41515-1	15.5	10.0
Clothes dryers	41540-1	15.5	10.0
Refrigerators	41507-1	15.5	7.5
Window shades	57600-1	20.0	14.0
Canned beef, ham and poultry	various	15.0	12.5
Tomato ketchup, vegetable sauces and juices	9023-1	15.0	-
Corn oil	27732-1	15.0	-
Canned peaches, cherries, apricots, pears	10601-1 to 10605-1	15.0	-
Strawberry jam	10531-1	15.0	-
Soup mixes	9100-1	12.5	-
Candy	14100-1	16.8	7.5
Jellies, jams and marmalades	10530-1	10.0	-
Cocoa	2200-1	10.0	5.0
Vermouth, aperitif and cordial wines	16210-1	25.0	-

Source: Customs Tariff, Schedule A. The MFN rates shown are those that will be in effect in 1987, after the reductions agreed to during the Tokyo Round are fully implemented.

clothing, footwear, many types of ships, frozen vegetables and clocks. Duties in the 15 to 17 per cent range are imposed on furniture, refrigerators, bicycles, table cutlery, scissors, small boats, canned meat and other goods. Tariffs in the 10 to 15 per cent range exist for a large number of consumer and other products including chinaware and kitchenware, many sporting goods, toys, jewellery, hand tools, nails and screws, canned fruits and vegetables, chocolate bars and candy.

The revenue generated by customs collections is not insignificant, amounting at present to over $4 billion annually. Moreover, the federal sales tax (recently raised from 9 to 10 per cent) along with any applicable excise tax, are imposed on the duty-paid value of most imports. Provincial sales taxes are then levied on top of these federal charges. These compounded collections of duties and other taxes on imports by federal and provincial governments can represent substantial additional costs for consumers and users. When applied – especially on clothing, food and other necessities – these duties and taxes on imports are, of course, regressive and represent more of a burden for low-income than for high-income consumers.

One might expect that during the prospective new round of GATT negotiations Canada would again join with other GATT countries in further reducing tariff barriers to trade. On the basis of past experience, this process is likely to be drawn out and the results are uncertain in terms of product coverage and depth of cuts. Earlier and more comprehensive tariff reductions may be made by Canada and the United States on cross-border trade, if the recently initiated negotiations for a new trade agreement are successfully concluded. (A discussion of these bilateral negotiations is in Chapter Seven.)

Customs Administration

The Customs Act provides authority for the administration and enforcement of the customs tariff system, and also for controlling the entry of goods into Canada under several other statutes, such as the Export and Import Permits Act, the Wheat Board Act, the Textile and Clothing Board Act, the Food and Drug Act, the Textile Labelling Act and the Agricultural Products Standards Act. As noted earlier, while certain of these statutes are not aimed at providing protection to domestic producers from foreign competition, they can have incidental effects as non-tariff barriers to imports.

Under the Customs Act, there exists a large body of regulations, Orders-in-Council and guidelines for customs officers and the public.[2] A pronounced feature of the Customs Act is the degree of authority and discretion that is given to the Minister of National Revenue and his department for the administration of the tariff system. As noted below, however, this discretion is now more limited than before with respect to the valuation of goods for customs purposes. Nevertheless, decisions on tariff matters taken internally by Revenue Canada can have a significant impact on the actual amount of customs duties that are paid on imported goods.

Valuation of Goods

Canada's customs valuation system, set out in the Customs Act, was long considered to be inconsistent with the GATT rules on the subject, for reasons discussed below. In late 1984, the Canadian system was substantially changed, to bring it into line with GATT Article VII, as well as with the GATT code on customs valuation which was signed in 1979 by a group of GATT members, including Canada, as an outcome of the Tokyo Round.

The significance of a system of valuing goods for duty, from the perspective of tariff protection, is well expressed in a recent report by the Tariff Board, as follows:

> The rates of duty in customs tariffs are expressed in terms of specific duties, *ad valorem* duties or some combination thereof. Where goods are free of duty, or are subject to a specific rate, i.e., a rate expressed in dollars and cents per unit of the goods imported, the value for duty and the method of establishing that value lose much of their importance. In such cases, customs values are significant only for purposes of trade statistics or when a percentage tax is subsequently levied on a value derived from the value for duty.
>
> Where there is an *ad valorem* factor in the rate of duty, then the method of establishing the value for duty may be as significant for protection or customs revenues as the rate of duty itself. Any advance in value is accompanied by a commensurate increase in both duties collected and in the level of protection. Values for duty are also significant in relation to the imposition of such charges as anti-dumping duties as well as in relation to any subsequent percentage imposts (such as federal sales and excise taxes) levied on values derived from the value for duty or the duty-paid value. (Tariff Board 1981, p. 6)

Canada's previous system embodied two elements which were inconsistent with GATT rules. For one thing, the value was based on the "fair market value" in the country of export. Essentially, this was the price at which like goods were freely traded under comparable conditions on the domestic market in the country of export. Secondly, the value could be established by "ministerial prescription" when the fair market-value could not be determined or was inappropriate, for example in the case of discontinued lines or other unusually low-cost imports, or where the goods originated in state-trading countries. This method was used in many cases to establish values for clothing and footwear from low-cost suppliers.

By contrast, the basic GATT rule requires that the following conditions be met:

> The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values. (Article VII, GATT. For full text, see Appendix Two)

It might be noted here that the Canadian system, like the U.S. system, was (and remains) based on the free-on-board (f.o.b.) value of an imported product, i.e., excluding freight, brokerage and insurance charges. By contrast, the systems of most other countries, including the European countries, are based on cost-insurance-freight (c.i.f.) values, which correspondingly increases the incidence of the duties collected at the border by these countries.

The Tokyo Round Code on Customs Valuation has interpreted Article VII as requiring that under normal competitive conditions the value for duty is the "transaction value", which is defined generally as being the selling price of the goods by the foreign exporter to the customer in the importing country. In most cases, this is the invoice price. If the transaction value cannot be established, the code permits several specified alternative methods to be used to establish values for duty.

The adoption by Canada of the GATT valuation code thus required the abandonment by Canada of the use of the "fair market value" and the use of "ministerial prescriptions" as means of valuing goods for duty purposes. The significance of the change-over has been explained by the Tariff Board as follows:

> The fair-market-value system provides that the primary method of valuation is to be based on information provided by the exporter respecting sales of like goods in the country of export. The transaction value system provides that the primary method of valuation is to be based on information provided by the importer respecting the purchase of the goods actually being appraised. Implementation of the transaction value system means, therefore, that Canada will lose, once and forever, the right to value imports by means of a comparison with the selling price of like goods in the exporter's domestic market.
>
> Implementation of the transaction value system will, of course, not result in any change in the level of protection or in the amount of customs duties collected for goods classified to tariff items with MFN rates of Free or with specific rates of duty. As of January 1, 1983, out of a total of 3,374 tariff items, 211 carried specific rates of duty and 1,626 provided free entry under the MFN Tariff. Canada's Tokyo Round GATT tariff concessions will increase by 437 the number of MFN tariff items subject to a rate of Free by January 1, 1987. Furthermore, for those goods and tariff items with ad valorem rates of duty, there will not be a reduction in value for duty, and consequently no reduction in the level of protection, if the fair market value system, as it was applied in early 1979, did not result in a value for duty greater than the selling price. According to senior officials in National Revenue, Customs and Excise, over 90 percent of all importations are valued on the basis that the selling price is equal to the declared fair market value and that this is accepted as the value for duty. (Tariff Board 1983, p. 10)

Consistent with the GATT valuation code, the new Canadian system provides for alternative methods of appraising goods for duty purposes. One important circumstance in which these methods may be employed is when the Canadian purchaser and the foreign vendor are "related persons" as defined by the Customs Act. These non-arms-length transactions are estimated to account for as much as 50 per cent of Canadian imports. The alternative methods of establishing the value for duty of such imports essentially involve either the transaction value of similar or identical goods, taking into account when, at what level of trade, and under what conditions they are sold, or the "computed value", which is more or less the cost of production plus amounts reflecting profits and selling expenses. Under each of the alternative methods, a certain amount of discretion may be exercised at the ministerial or bureaucratic level. As noted above, however, the former provisions for assessments by "ministerial prescription" were abandoned, in line with the basic injunction in GATT Article VII against the use of "arbitrary or fictitious values". One exception, discussed below, allows the continued use of ministerial prescriptions of value, in special circumstances, under the anti-dumping system.

Tariff Classification

As noted earlier, Canada along with the United States and other GATT countries are aiming to convert by January 1, 1988 their older systems of classifying goods for customs purposes to a "Harmonized System" developed within the Customs Cooperation Council. In a recent report, the Tariff Board examined the range of complexities surrounding Canada's existing classification system, which has been described as "one of the most diversified and complex in existence". (Blake 1957, p. 4) These include:

- the proliferation over the years of tariff headings, sub-headings and items, whereby basically the same product may be classified under a number of different provisions which can carry quite different rates of duty (there are 2,800 tariff items in Schedule A to the Customs Tariff);
- differing classifications for a product based on its degree of manufacture (for example, cocoa beans and butter are duty free while powdered cocoa pays a 10 per cent duty);
- the same product can carry different rates of duty, depending on the "end-use" and/or the "end-user" (Schedule B contains a special list of imported materials entitled to "drawbacks" when used in the manufacture of specified products);
- for a number of products, lower MFN rates are in effect on a temporary basis;
- many products fall into "basket" classification;
- goods meeting various "socially desirable" criteria, such as for use by educational, scientific or religious institutions are commonly free of duty; and
- many "end-use" items are free of duty only when of a class or kind not made in Canada. The use of this particular element in the classification system was reviewed by the Tariff Board, following a request made to it in 1979 by the Minister of Finance.[3]

It is evident that many of the above complexities in the classification system were introduced as a means of reducing the cost of imported inputs for specified, favoured Canadian manufacturers, processors and exporters, while maintaining the broader protective effect of the tariff system. Added to these complexities is a further element which adds to the difficulties and cost of importing, and that is the lack of correspondence between the tariff classification system and the system of classifying imports for statistical purposes as set out in the Canadian International Trade Classification (CITC). Importers must thus cope with two separate, unrelated classification systems.

The Harmonized System, to be implemented by Canada by 1988, cannot be described in detail here, but its adoption will involve an almost complete restructuring of the Canadian classification system. It will result in a much more simplified system, for example, by reducing the existing 2,800 separate tariff items to about 1,200 new main headings. The conversion is not intended to have any significant overall effect on tariff rates, or the protection provided by the tariff, although in the process of simplification and condensation of the classification system, many rates will undoubtedly be affected, upwards or downwards. Some changes are likely to involve renegotiations in the GATT.[4]

Non-Tariff Measures

Agricultural Products

A network of import controls is imposed on food products by the government in order to defend a variety of agricultural supply management and other programs that have been established to support domestic prices of the products concerned and to maintain incomes of domestic producers. It is, of course, difficult to disentangle the consequences of the import controls from the other effects of the operation of these programs. In the words of the Economic Council of Canada, import controls are a "standard adjunct" to supply management programs.

The GATT rules permit, as an exception, quantitative restrictions on agricultural products where these are necessary to implement domestic programs that limit quantities produced or marketed; such import restrictions, however, are not supposed to reduce the quantities of imports relative to domestic production. The following are the main import controls maintained by Canada on agricultural products.

Grains and Cereals. Under the Canadian Wheat Board Act, the Board must license all imports of wheat, oats and barley, and their products. Licenses for these grains and their flours are rarely issued, although some quantities of oats and barley are licensed for import from time to time to meet domestic scarcities. A range of designated products manufactured from these grains may be imported freely under "Special Blanket Import Licenses", but these products can only be imported in small consumer-size quantities, which increases their price to consumers. For example, batters and mixes, breakfast cereals, and boxed baby food can only be imported in packages of one pound or less; canned baby food in container weighing a half-pound or less; and pasta products in packages of five pounds or less. Fresh bread, biscuits and pastries, however, can be imported freely, subject to payment of whatever customs duties are applicable.

Dairy Products. Under the Canadian Dairy Commission Act the Governor-in-Council may place on the import control list any product "the import of which he deems necessary to control for the purpose of implementing any action taken under this Act to support the price of any dairy product". All dairy products are on the list. Apart from cheese, imports of dairy products are rarely permitted. For cheese, an annual import quota of 50 million pounds was introduced in 1975, but was reduced to 45 million pounds in 1979 despite continued growth in overall domestic consumption. Moreover, European exporting countries have agreed to certain minimum pricing arrangements for shipments to Canada, covering even types of cheese that are not produced here, which raises their price for Canadian consumers.[5] In 1985 the federal government reviewed its long-term dairy policy. The Minister of Agriculture announced in January 1986 that the existing dairy policy would remain in effect, including the scheme of import controls. A reduction of the cheese quota was hinted at, and restrictions on "dry dairy blends" were tightened by redefining the products concerned.

Eggs, Turkeys and Chickens. The Farm Products Marketing Agencies Act came into force in 1972 and established a basis for the creation of marketing boards for farm products other than those covered by the Wheat Board Act and the Dairy Commission Act. To date, marketing boards have been established for eggs, turkeys and chickens, and provide supply management programs that place controls not only on domestic production, prices and trade, but on imports as well. On the advice of the marketing agency concerned and on the basis of historic patterns of imports, the Department of Agriculture effectively determines annual import quotas for these products as well as any supplementary quotas that may be permitted. The quantity of imports allowed entry into Canada varies from year to year, but represents a small proportion of domestic consumption – perhaps 2 to 6 per cent.

Beef and Veal. Import control measures of various kinds were imposed several times during the 1970s, including export restraints administered by Australia and New Zealand under bilateral arrangements. In addition, health regulations prohibit the import of fresh and frozen meat of all kinds from all but a few countries. A new and firmer basis for restricting exports was established in 1981, in the form of a Meat Import Act, which so far covers only beef and veal. Under this legislation "such restrictions ... as the Minister considers appropriate may be imposed on beef and veal imports by the Minister of Agriculture, with the concurrence of the Minister of International Trade." It should be noted that there exist no domestic supply management programs for beef and veal that might help legitimize the use of import controls under GATT rules. Under the Act, restrictions may be imposed at any time, and for any period, and there is no need to demonstrate that domestic producers are being injured by imports. Nor is it necessary to consider the interests of consumers, although the Act requires the appointment of an advisory committee that may be consulted at the discretion of the minister; and one member of this committee is designated as representing "consumers". Under this Act, import controls may be replaced by controls administered by exporting countries. Some limitations on the size of import quotas exist as a result of Canadian commitments with Australia and New Zealand instituted through the GATT.

The Act has been used only once to restrict beef and veal imports. During 1984, Canadian beef producers complained about increases of subsidized beef imports from the European Community, which led to unsuccessful efforts to impose countervailing duties on these imports under the Special Import Measures Act. Subsequently in late 1984, the government imposed a global quota of 66.5 million kg on imports during 1985, allocating the total among the five exporting countries or group of countries: the European Community, the United States, Australia, New Zealand and Nicaragua. These measures were notified to GATT as compatible with Article XIX. The effect was to sharply reduce the flow of imports from the Community and virtually to eliminate the modest imports from Nicaragua. (Department of External Affairs, Canada, *Notice to Importers*, Serial No. 257, December 21, 1984). Imports from the other suppliers were not seriously affected. After subsequent negotiations, Canada agreed to higher 1985 shipments from the Community and Nicaragua. During 1985, Canadian beef producers again launched an initiative to have countervailing duties imposed on imports from the Community, and during the summer of 1986, the Canadian Import Tribunal determined that domestic producers were being injured by the subsidized imports from the Community, and stiff countervailing duties were imposed on these imports.

Alcoholic Beverages

The federal government imposes import duties on alcoholic beverages at various levels, as well as excise taxes and sales taxes. The main controls on imports, however, are exercised by the provinces under a variety of monopoly-type purchasing and marketing systems. In part, these systems are designed to provide protection to domestic producers of beer, spirits and wine; in part they operate to raise provincial revenues and to pursue social objectives. The protective effects of these systems, especially the operation of the Ontario system, have been subject to repeated protests by the United States, Europe and other exporting countries. Further, the European Community and the United States have protested that the Ontario system – as well as some other provincial liquor boards – operates in contravention of the political commitments undertaken in the Provincial Statement of Intentions, concluded during the Tokyo Round.

Schedule C Prohibited Goods

As noted earlier, Schedule C to the Customs Tariff contains a list of goods whose importation has long been entirely prohibited. Not all of these imports are prohibited for protective reasons, but protection for domestic producers appears to be some or all of the reasons for prohibitions on the importation of the following products:

- used or second-hand motor vehicles
- used or second-hand aircraft
- margarine and other substitutes for butter
- reprints of Canadian copyrighted works, or British copyrighted works that have also been copyrighted in Canada
- issues of foreign periodicals containing advertisements primarily directed to a market in Canada that do not appear in editions in the country of origin, or foreign periodicals that direct Canadian customers to specific sources of supply in Canada of any goods or service.

Textile and Clothing Restrictions

The extensive restrictions that have been placed on imports of clothing and textiles from "low-cost" suppliers merit special attention; they have been in place for well over a decade and represent one of the most regressive developments in recent Canadian trade policy. This restrictive import system has operated since 1971 within the framework of the Textile and Clothing Board Act, which was designed as a central part of a broader "Canadian Textile Policy" (which was announced by the Minister of Industry, Trade and Commerce in a statement to the House of Commons on May 14, 1970; see Pestieau 1976). This Act established the quasi-independent Textile and Clothing Board (TCB) and provided the government with new authority to impose restrictions on imports of clothing and textiles when such imports are determined by the TCB to be causing or threatening serious injury to Canadian producers.

Within the framework of the 1971 Act, controls on imports of clothing and textiles have taken three forms, as follows:

- restrictions placed by Canada on imports of particular products from particular "low-cost" countries,
- restrictions placed by Canada on a global basis from all sources (global quotas on almost all clothing were imposed between 1976 and 1979); and
- quotas placed by exporting countries on particular products under bilateral arrangements; such arrangements now cover most imports of clothing and many textile products from all of the major "low-cost" exporters and state-trading countries.

Canada's import controls for textiles and clothing have been put in place both within the framework of the GATT "safeguard" provisions of Article XIX and also the Multifibre Arrangement (MFA). As discussed in Chapter Four, under GATT Article XIX any restrictions on imports must be imposed on a global basis; such controls must be temporary, and exporting countries may demand compensation. By contrast, the MFA provides a framework for controlling imports on a discriminatory basis under bilateral arrangements or, in certain circumstances, under quotas administered by importing countries. Table 5.2 lists countries whose exports, according to the GATT Secretariat, are subject to bilateral restraint agreements by major importing countries under the MFA.

The Textile and Clothing Board consists of three members, who have the authority to collect information and statistics, to inquire into complaints about imports of textiles and clothing

TABLE 5.2
Textiles and Clothing: Bilateral Agreements UnderArticle 4 of the Multifibre Arrangement Maintained in 1984[1]

Importing Country	Exporting Country or Area
Austria	Brazil, Hong Kong, India, Korea, Macao, the Philippines, and Singapore
Canada	Brazil, China, Czechoslovakia, Hong Kong, Hungary, India, Korea, Macao, Malaysia, Pakistan, the Philippines, Poland, Romania, Singapore, Thailand, and Uruguay
European Community[2]	Bangladesh, Brazil, Colombia, Czechoslovakia, Egypt, Guatemala, Hong Kong, Hungary, India, Indonesia, Korea, Macao, Malaysia, Mexico, Pakistan, Peru, the Philippines, Poland, Romania, Singapore, Sri Lanka, Thailand, and Uruguay
Finland	Hong Kong, India, Korea, Macao, Malaysia, Pakistan, Romania, and Thailand
Sweden	Brazil, Indonesia, Malaysia, Pakistan, the Philippines, Sri Lanka, and Thailand
United States	Brazil, Colombia, the Dominican Republic, Hong Kong, Hungary, India, Indonesia, Japan, Korea, Macao, Mexico, Pakistan, the Philippines, Romania, Singapore, Sri Lanka, Thailand, Uruguay, and Yugoslavia

1. Agreements notified to the GATT Textiles Surveillance Body between January 1, 1982 and August 3, 1984.
2. This list does not include controls on imports from countries with whom the Community has concluded special preferential bilateral agreements.

Source: General Agreement on Tariffs and Trade, *Report of the Textiles Surveillance Body to the Textiles Committee for the Major Review of the Operation of the Arrangement Regarding International Trade in Textiles 1984*, COM.TEX/SB/984 (October 1, 1984).

products, to hold hearings, and to submit its findings and recommendations to the government.

The TCB is authorized to conduct inquiries: (a) in response to complaints received from a Canadian producer who considers that the importation of any textile or clothing goods "is causing or threatening serious injury to his production in Canada of any textile and clothing good"; (b) on its own initiative; or (c) at the request of the Minister of Regional Industrial Expansion.

The Act provides that the TCB may in its enquiries receive evidence from any "interested party" (which is defined to include a "user or consumer" of the goods in question) as well as producers, importers, labour unions and others. A producer submitting a complaint is required to file a plan describing those adjustments he proposes to make in his operations that are aimed at phasing out inefficient operations and increasing his ability to become internationally competitive.

If as a result of an inquiry the TCB determines that imports are causing or threatening serious injury to production in Canada, it is required to recommend to the Minister of Regional Industrial Expansion whether "special measures of protection should be implemented". It may also make interim recommendations, even before concluding its inquiry, for the immediate implementation of such measures. In either case, the TCB is required to "specify the recommended scope and duration of the special measures". The Minister is not, however, obliged to adopt the recommendations of the TCB. The implementation of the recommendations is a matter for decision by the government.

Special measures of import protection for Canada's textile and clothing industry pre-date the establishment of a TCB, but since the early 1970s the TCB has played a central role in the import regime for textiles and clothing. Between 1971 and 1976, its inquiries and recommendations provided a basis for continued import restrictions or restraints by exporting countries on a range of individual products from particular countries, as well as for a system of global quotas on a number of products, including lower priced men's and boy's shirts, work gloves, acrylic yarn and knitted fabrics. During this period, Canadian controls on imports of textiles and clothing were relatively selective and moderate, at least in comparison with the import regimes of most other developed importing countries.

During 1975 and 1976, producers mounted a strong campaign for more severe controls, especially on imports of clothing. The issue became highly political. In September 1976, the Minister of Industry, Trade and Commerce directed the TCB to undertake a broad inquiry into injury to Canadian producers of clothing. This inquiry had hardly opened when the TCB, under strong pressure from a group of garment makers, issued an "Interim Report" under Section 17 (2) of the Act. It recommended the immediate imposition of global import restrictions by Canada on almost the whole range of clothing items, with a roll-back in quantities to 1975 levels. These recommendations were hastily implemented by the government in late November, causing great consternation internationally and opening a new restrictive area in Canadian import policies for textiles and clothing products.

Meanwhile the TCB proceeded with its full inquiry into clothing imports, held a series of hearings, and issued its final report in May 1977. In summary, it recommended that: (a) the global import quotas should be converted into bilateral restraint arrangements with a long list of "low-cost" and state-trading countries, under which these countries would control the flow of their imports into Canada; (b) the product coverage of these bilateral arrangements should be similar to the coverage under the global quotas; and (c) imports from the "restrained" sources should be held to existing levels or reduced.

Over the following year or so, the government proceeded with the negotiation of such bilateral arrangements, and concluded arrangements of a comprehensive kind with the seven main "low-cost" exporting countries; arrangements with smaller "low-cost" suppliers were also made but their product coverage was more selective than the TCB had recommended. The extension of these arrangements to an eventual 17 exporting countries was piecemeal and resulted from the monitoring of contracts and imports that demonstrated potential increases from smaller suppliers; with these, negotiations were all initiated after arrangements with the larger seven suppliers went into effect.

In 1979 the TCB, on its own initiative, opened a further major inquiry covering the whole range of textiles and clothing products, held hearings and issued its report in June 1980. It recommended, in summary: that restrictions should be imposed on a longer list of products from all "low-cost" and state-trading countries under bilateral agreements or under unilateral import controls; that levels of imports should be held initially to existing levels or below, and thereafter permitted to grow by a maximum of 1 to 4 per cent, depending on the product; and that these controls on imports should be extended for a full decade, until 1990.

The TCB recommendations were not fully accepted by the government, presumably in part because of the difficulty of negotiating such comprehensive, restrictive arrangements with so many exporting countries.[6] Nevertheless, the government proceeded to negotiate with 17 exporting countries on restraint arrangements covering the period 1982-1986. The government also established a $250 million, five-year adjustment program for the Canadian industry and set up the Canadian Industrial Renewal Board to manage this adjustment program.

In December 1984, the Minister of Regional Industrial Expansion made a further request to the TCB to conduct an inquiry on imports of textiles and clothing. The Board issued an interim report in June 1985, containing a series of recommendations which, in effect, reversed its earlier approaches to controlling imports. In brief, the TCB recommended that the government should impose a global quota "on imports of all types of clothing, including leather garments, hosiery and work gloves" and that the quota should be established at 1984 levels for the following three years, with no allowance whatever for growth.

The government took no action on these TCB recommendations. On October 31, 1985, the TCB submitted the final report of its inquiry to the Minister. The report was made public on December 24. The Board stood by its interim recommendation for global quotas, but characterized such relief as just a temporary measure "to arrest further damage to the textile and clothing industry while MFA and subsequent bilateral agreements are being negotiated." (TCB 1985, Vol. 1, p. 4) The bulk of the Board's recommendations were devoted to ways in which these bilateral agreements could be tightened to further restrict imports. For example, growth rates in such agreements were recommended not to exceed 4 per cent generally and 2 per cent for certain "sensitive products" (under current agreements growth is generally at 6 to 10 per cent per annum).

The Board based its recommendations for continued and heightened import restrictions mainly on the Canadian industry's declining market share, poor capacity utilization and marginal profitability. The Board also painted a pessimistic picture of the ability of the domestic industry to compete with the products of the developed and lower-wage economies in the long run, finding that competition through technological progress was "out of the question for the next ten years." (TCB 1985, Vol. 1, p. 103) It therefore was willing to recommend quota protection as an effectively permanent institution for these industries, despite the recognition that this meant additional costs to consumers of $300 to 350 million annually.

At the end of July 1986 the government announced its intentions regarding future restrictions on imports of textiles and clothing. In brief, the proposal for the imposition of global quotas was rejected. Instead, the government "intends to renegotiate and extend the bilateral restraint arrangements which are in place in these sectors with 25 low-cost supplying countries". The government also introduced a duty remission program for manufacturers of shirts. In its announcement it was noted that the cost of import quotas alone, apart from tariffs, was between $300 and $350 million per year, translating into about $60 each year for a family of four.[7]

At the end of July 1986 it was also announced in Geneva that the MFA had been extended for a further five-year period. By a Protocol to the MFA, its terms were again made more restrictive, among other things by extending its coverage to a wider range of products.[8]

Restrictions on Footwear Imports

Canadian restrictions on footwear also merit special attention because of the importance of this sector. As noted earlier, in 1971 the Anti-dumping Act was amended to enable the Governor-in-Council to request the Anti-dumping Tribunal (now the Canadian Import Tribunal) to investigate and report on imports of any goods which, although not being dumped, "may cause or threaten industry to the production of any goods in Canada". This provision, carried over in Section 48 of the Special Import Measures Act (SIMA), can and has been used as a basis for the imposition of import restrictions of a "safeguards" nature under conditions governed by GATT Article XIX. In practice, the main activities of the Tribunal under this legislation have been confined to investigations on footwear imports. Four separate investigations have been made, in 1973, 1977, 1981 and in 1984-5.

Inquiries by the Tribunal under Section 48 of SIMA (as under Section 16.1 of the previous legislation) must be specifically requested by an Order-in-Council, and the Tribunal serves in an advisory capacity to the government in accordance with terms of reference drawn up by the government for particular inquiries. However, findings of injury by the Tribunal under Section 48 and its recommendations do not automatically lead to restrictive import measures; these require separate decisions by the government.

The inquiry by the Tribunal in 1973 into footwear imports led to a determination that imports of footwear were not causing or threatening serious injury to Canadian production. Four years later, in 1977, the Governor-in-Council directed the Tribunal to make a second inquiry regarding imports of footwear (rubber and canvas footwear excepted). This time, the Tribunal's inquiry led to an interim finding in July 1977 of "immediate serious injury" to the Canadian producers from imports of women's and girls' footwear, and to a final determination in September of serious injury, or the threat thereof, "in all sectors of production, other than footwear the main component of which is rubber or canvas". Pursuant to the Tribunal's report, the government imposed global quotas on imports of footwear, except rubber, canvas, and certain types of special footwear, at levels which represented severe cut-backs from existing levels of imports.[9] The 1977 quotas were imposed for a three-year period; in July 1980 the quota period was extended to November 30, 1981.

In July 1980, the Governor-in-Council directed the Tribunal to conduct a third inquiry into imports of footwear. On this occasion, the Tribunal was directed to determine whether serious injury or the threat thereof would arise "in the absence of special measures of protection". In addition, the Tribunal was directed to examine "the extent to which the Canadian footwear industry has restructured since its Report of 1977 and the extent to which the industry has improved its competitive position against imports".[10] It is of interest that while the Tribunal was directed to enlarge its inquiry beyond the determination of injury from imports, the reference contained no mention of the consumer or public interests involved.

The Tribunal's 1981 report, indeed, gave short shrift to consumer concerns about footwear restrictions. The report stated: "In the light of the Tribunal's terms of reference, these (consumer) concerns cannot be a matter of central interest in this report, although the Tribunal recognizes that they are of substantial interest in the broader context". (Anti-dumping Tribunal, 1981, p. 106-7)

The Tribunal's 1980-81 inquiry led to the conclusion that no injury was caused or threatened by imports from developed market economy countries nor from state-trading countries. Imports from "low-cost" countries, however, were found to threaten serious problems for Canadian producers. The Tribunal concluded that Canadian production of a number of classes of footwear, including both leather and non-leather footwear, "would in all likelihood be seriously injured in the absence of special measures of protection" against imports from certain developing countries – namely, Taiwan, South Korea, Hong Kong, Brazil and India.

In the light of the Tribunal's September 1981 report, the Minister of Industry, Trade and Commerce announced on November 24 a number of changes in the quota restrictions, which departed in some respects from the Tribunal's findings. One change was to remove quotas on imports of leather footwear from all sources; another was to continue existing global quotas on other types of footwear from all sources, and to extend the restrictions to cover shoes made of canvas. The overall effect of these changes was to end restrictions on imports of most footwear from developed countries, while intensifying restrictions on imports of special interest to developing countries.

Domestic producers of leather footwear exerted strong pressure on the government to re-impose quotas on imports of leather footwear, at least from "low-cost" sources. As a consequence, the government re-imposed quotas on leather footwear in July 1982, and on a global basis. Although all quotas were to terminate on November 30, 1984, they were subsequently extended until November 30, 1985.

In June 1984, the government directed the Tribunal to undertake a fourth inquiry. The reference was again broadened to include not only an investigation into injury from imports and the extent of restructuring of the industry, but also:

- to examine the impact of the quotas on importers, wholesalers and retailers, and on the prices paid for footwear by Canadian consumers; and
- to recommend a formula by which the special measures of protection could be phased out through a progressive liberalization process covering a period of not more than three years.

The Tribunal's report, issued in June 1985, contained a detailed and thorough analysis of the impact of the import quotas on producers, importers, retailers, consumers and government revenues.[11] The conclusions of the Tribunal were as follows:

- All sectors of the footwear industry, except the women's and girls' footwear sector are capable of competing successfully against imports in the absence of special measures of protection (i.e., protection beyond the existing 23 per cent import tariff).
- Quota allocations for women's footwear should be retained, but should be increased by 10 per cent each year for the next three years, at the end of which time they should be exerting no appreciable restraints on imports.
- Dislocations in the industry resulting from termination of the import quotas should be met by assistance under the full range of adjustment programs which, if necessary, should be strengthened.

Following consultations between officials of the Department of External Affairs and interested parties in the late summer, the Minister of International Trade announced in November 1985 that the government would follow the Tribunal's recommendations. As a result, quotas on all footwear except women's and girls' shoes expired on November 30, 1985. Quotas on these were retained but will increase each year until they come to an end on November 30, 1988.

The move to abolish quotas or phase out the footwear restrictions can fairly be regarded as a signal that the government is serious about moving toward a more open, market-oriented trade order. An influencing factor was undoubtedly President Reagan's decision in September 1985 not to impose quota restrictions on imports of footwear into the United States, as had been recommended by the International Trade Commission. Another factor may have been that the continuation of Canada's restrictions on footwear, which have been in place since 1977, would have raised serious questions about their compatability with the GATT safeguard provisions of Article XIX, which require that measures of this kind be temporary. Even limited restrictions retained on women's and girls' footwear led to an immediate call for compensation by the European Community. Canada had already been forced to compensate the Community when the footwear quotas were extended in 1984, by lowering duties on a number of other imports from the Community.

Anti-dumping Duties

Anti-dumping duties are special duties imposed on an imported product, in addition to any normal customs duties, in circumstances where the foreign exporter sells to customers in Canada at prices that are lower than the "normal price" charged to customers at home, and when "material injury" is caused or threatened to Canadian producers of like goods because of this "dumping". The theory is that the dumping duties will increase the price of the imported goods to Canadian consumers and thus help bolster sales by domestic producers.

At an earlier period, Canada's anti-dumping system was governed by provisions contained in the Customs Tariff and related provisions of the Customs Act. As noted earlier, in 1968, following a strengthening of GATT rules on anti-dumping, a wholly new Anti-dumping Act was adopted and a five-member Anti-dumping Tribunal was established to assist in its operation. In 1984, the Anti-dumping Act was replaced by the Special Import Measures Act and the Tribunal was renamed the Canadian Import Tribunal.

Canada's anti-dumping system has a long history, dating back to 1904, and was the first system of its kind. A high tide in its history occured in the early 1930s to give additional protection to Canadian producers, especially from U.S. exports. One authority has called anti-dumping duties "Canada's distinctive contribution to the trade barriers of the great depression". (Elliott, p. 187) By the early 1950s, Canada's use of anti-dumping duties had become more restrained, partly as a result of the rules in Article VI of the General Agreement on Tariffs and Trade.

Until 1968, however, Canada's anti-dumping legislation and practice remained inconsistent with several key elements of GATT rules. In particular, Article VI of the GATT forbids the imposition of anti-dumping duties without a determination of injury to a domestic producer; prior to 1968, Canadian legislation required no formal investigation into injury. To some extent, this inconsistency with GATT rules was ameliorated by the limitation of anti-dumping duties to goods of a "class or kind" made in Canada. Nevertheless, the absence of formal findings of injury was criticized by Canada's trading partners. Moreover, Canadian consumers and users failed to benefit from the limitations imposed by the GATT rules. These rules were strengthened and elaborated by the Anti-dumping Code which was adopted as an outcome of the Kennedy Round (1963-67); and this code was modified in certain respects as an outcome of the Tokyo Round. Since 1968, a special GATT committee has met periodically to examine the anti-dumping systems and practices of signatories of the Code, and their conformity to the GATT rules.

Canada's 1968 Anti-dumping Act was a considerable improvement over the earlier system in that it separated the question of whether imports were being dumped from the question of injury to Canadian producers. The Anti-dumping Tribunal and its successor, the Canadian Import Tribunal, investigate allegations of injury to Canadian producers, hold public hearings, and issue the findings. Reviews are also regularly made of earlier determinations, which are rescinded if determined to be no longer appropriate.

On the other hand, Canadian legislation leaves the initiation of anti-dumping procedures to the discretion of Revenue Canada (or to complaints to the department by domestic producers) provided there is some evidence that dumping is occurring and that domestic producers are being injured or threatened with injury. The Tribunal can also initiate the process, if it concludes during an inquiry into injury from dumping that similar goods from another source are also being dumped. The legislation gives considerable discretion to the Deputy Minister of Revenue Canada in determining margins of dumping. Appeals against these determinations can be made to the Tariff Board or, on questions of law, to the Federal Court of Appeals. There is no appeal, however, from decisions by the Tribunal with respect to injury, except on matters of law.

Prior to 1984, anti-dumping duties under Canadian law had to be set at an amount equal to the margin of dumping of the entered goods: no lesser amount could be imposed. Under SIMA, the Tribunal may recommend to the Minister of Finance that it would be in the public interest not to impose anti-dumping duties or, instead, that it would be in the public interest to reduce the amount of the duty (Section 45). It is uncertain whether or to what extent the Tribunal will, in practice, make use of this "public interest" clause. In any event, this provision provides a new and firmer basis for consumer groups and users to present their views before the Tribunal with regard to their particular interests in the case, although not with regard to the question of injury to producers. It should also be noted that the government may at any time exempt "any goods or class of goods" from the application of anti-dumping duties (Section 14).

SIMA made several other significant changes to Canada's anti-dumping system, including the following:

- Shorter and clearer time limits are set on the various stages for investigations by Revenue Canada into alleged injurious dumping, and for determinations by the Tribunal regarding injury to domestic producers. The normal time from receipt of a documented complaint by Revenue Canada to a Tribunal decision on injury is now 240 days. However, from the time the Revenue department makes a preliminary determination of injurious dumping, provisional anti-dumping duties must be paid by the importer. These duties are refunded if the Tribunal later determines that Canadian producers are not being injured by the dumped imports.
- The government is authorized to negotiate, at an early stage of the proceedings, "undertakings" with exporters regarding the pricing of their exports, in order to eliminate the dumping or the injury to Canadian producers and to eliminate the need for a dumping inquiry altogether.
- A sunset clause was introduced, whereby anti-dumping duties lapse after five years unless the Tribunal makes a further determination that the imports in question are continuing to injure domestic producers.
- Independent counsel may have access to confidential information submitted to Revenue Canada or the Tribunal during their proceedings.

- The concept of "the importer" was broadened. Revenue Canada and the Tribunal can now decide who is "in reality the importer". The change has special significance for imports of expensive capital goods, where the ultimate customer, as distinct from the importer, may now be liable for the payment of anti-dumping duties.
- The submission of a binding tender by an exporter, perhaps even before its acceptance, can now be the basis for a complaint and investigation by Revenue Canada: this change also has special significance for sales of expensive capital equipment.
- The concept of "injury" was extended to include not only those situations where there was actual injury or the threat of injury but also if the import in question causes "the material retardation of the establishment of the production in Canada of like goods" (Section 2:1).
- Revenue Canada can be called on to provide greater information about its investigation of dumping of imports.

In summary, SIMA contains a mixture of changes to earlier anti-dumping legislation both in a liberal direction and also in such a way as to make the system more restrictive. Possibly the most restrictive of the changes are aimed at imports of heavy capital goods. Appendix Six lists the imports on which anti-dumping and countervailing duties have been imposed under SIMA since it came into force.

Countervailing Duties

A countervailing duty is an additional duty, over and above the normal customs duty, that may be imposed by an importing country to offset a subsidy given by the government of a foreign country to a producer or exporter. As discussed in detail elsewhere in this study, subsidies can take various forms (financial grants, loans on concessional terms, special tax advantages, etc.) and they are given by governments for a variety of economic, social and political reasons. Subsidies can have significant effects on international trade, and their use has increased in recent years, as governments have enlarged their interventions in economic affairs.

Consumers in importing countries can gain benefits from subsidies paid by governments to producers and exporters in foreign countries, in the form of lower prices for imported products. However, producers of similar goods in the importing country may object that subsidized imports represent "unfair" competition, and request that their governments impose offsetting countervailing duties so as to raise the price of the subsidized imports and improve their own competitive position in the domestic market.

The use of countervailing duties is constrained by the rules of Article VI of the GATT, and by a supplementary Agreement on Subsidies and Countervailing Measures that was concluded during the Tokyo Round and signed by Canada. One of the main GATT constraints is that countervailing duties may only be imposed when it has been demonstrated that imports benefiting from foreign subsidies are causing or threatening "material injury" to an established industry or retarding "materially" the establishment of a new industry. Another rule limits the amount of any countervailing duty to a maximum of the amount of the subsidy. The GATT code also constrains in various ways the use of subsidies. Export subsidies are prohibited on manufactured goods and metals, and on agricultural and other primary products they must not result in the exporting country gaining "more than an equitable share of world trade in that product." The code established a special overseeing committee of signatories, to monitor the systems and practices of the members relating to the use of subsidies and of countervailing duties, and to help resolve disputes among the members.

Canada has made relatively little use of countervailing duties in its import system, especially in comparison with the United States. For many years Section 7 of the Customs Tariff authorized the imposition of countervailing duties to offset foreign subsidies, but regulations establishing procedures for their use were promulgated only in 1977. Moreover, even if it were determined by Revenue Canada that subsidization of imports existed – by the Anti-dumping Tribunal that the imports were injuring Canadian producers – it would still require a positive decision by the federal Cabinet for countervailing duties to actually be applied. Unlike anti-dumping duties, countervailing duties were not applied automatically following a determination of injury by subsidized imports. As a result, the Canadian business community complained that the system was inaccessible and unresponsive to their needs. While dumping cases proliferated during the late 1970s and early 1980s, only four or five countervailing cases were launched, and none actually led to a report of injury by the Tribunal. In 1984, however, two countervailing duty cases were pursued, both against imports from the European Community. One, relating to canned ham and luncheon meat, led to a determination of injury by the Tribunal and the imposition of countervailing duties. The other, relating to imports of beef from the Community, was in effect set aside by the Tribunal and led to the introduction of import quotas by the government under the Meat Import Act, as discussed above. However, a countervail case against Community beef was again launched in mid-1985; and in the spring of 1986 a countervail case was initiated against imports of corn from the United States.

The Special Import Measures Act restructured Canada's countervailing duty system to parallel more closely the operation and procedures of the anti-dumping system. As in the case of dumping duties, following a determination by Revenue Canada that an imported product is subsidized, a positive finding of injury by the Tribunal now leads automatically to countervailing duties on subsidized imports. The Tribunal may recommend duties that are less than the full amount of the subsidy if it considers this would be in the "public interest"; and proceedings may be halted if, at an early stage, the exporting countries enter into an "undertaking" to terminate the subsidy or to limit the price and/or the quantities of the subsidized exports involved. The timetables for the two processes are also the same. The maximum total time is 240 days in normal cases (285 in exceptional cases) from the receipt of a complaint until a determination regarding injury is made by the Tribunal.

In one respect, the two systems differ: the Cabinet may impose countervailing duties on subsidized imports even in the absence of a determination of injury by the Tribunal, provided such duties have been authorized by the GATT committee established by the Subsidies Code. This so-called "second track" could be used as a retaliatory measure against subsidized exports (by a competitor to a third country) that damage Canadian exports to that market.

Over recent years, the use of subsidies and countervailing duty systems has generated severe frictions within the trade system, in part because governments are involved on both the exporting and importing sides, and in part because of the increased use of subsidies as instruments of domestic economic and social policies. In the United States, in particular, the countervailing duty system has become an accessible and much used avenue for domestic producers to seek additional protection against international competition, and to harasss foreign competitors. In other countries with similar systems—principally Canada, the European Community, Japan and Australia—the use of countervailing duties is far less common. (GATT, *Activities* 1984, p. 22) However, the full impact of the existence of countervailing duty systems cannot be measured by the number of cases that are initiated or successfully pursued.

The fact that these systems exist, and might be used, in the main importing countries is in itself sufficient to discourage governments and producers in exporting countries from the use of subsidies that might attract countervailing duties in export markets.

Administration of Quota Restrictions

In Canada the administration of quota and other trade restrictions is separate from the process of decision-making about their imposition, and is carried out principally under the authority of the Export and Import Permits Act. This legislation was originally brought into force during the Second World War; it provides a legal basis and a set of procedures for the administration of quantitative restrictions and embargos on both imports and exports, where these are imposed under other legislation, and also in certain other specified circumstances such as "to implement an intergovernmental arrangement or commitment". It also provides the basis for systems to issue import licences for products under quota, and for special arrangements to monitor imports of sensitive products.

The authority and conditions for controlling imports are established by Section 5 of the Act, which authorizes the government to establish an "Import Control List".[12] The Governor-in-Council may place on this list "any article the import of which he deems it necessary to control" for the purposes specified in Section 5; there are at present some 65 items on the list. These controls may be summarized as follows:

- controls in support of legislation and programs for the support of farm incomes and agricultural prices, including the Canadian Dairy Commission Act, the Farm Products Marketing Agencies Act, and the Meat Import Act; thus the Import Control List includes the whole range of dairy products, eggs, chickens, turkeys and their products, and beef and veal;
- controls on imports of textiles and clothing products when, as a result of an inquiry by the Textiles and Clothing Board, these have been determined to be causing or threatening "serious injury to Canadian producers of like or directly competitive goods"; thus the list contains a catalogue of textiles products and clothing;
- controls of imports of "any goods", other than textiles or clothing goods, when, as a result of an inquiry by the Canadian Import Tribunal these have been determined to be causing or threatening "serious injury to Canadian producers of like or directly competitive goods"; thus, the

list contains the footwear products which are subject to quantitative restrictions of a "safeguard" kind; and

- controls that are not for protective purposes but are needed "to implement an intergovernmental arrangement or commitment"; thus, for example, the list includes coffee in any form, in support of Canada's participation in the International Coffee Agreement, a list of "endangered species", and certain whale products.

Where controls are imposed on imports of goods entering Canada, whether or not quantitative restrictions are actually applied, importers are required to obtain permits from the Special Trade Relations Bureau in the Department of External Affairs. These permits are commonly obtained through brokers who charge fees for their services. No goods on which controls are imposed can be cleared through customs without this permit. When a particular product is under a quota limitation and the quota has been filled, no further permits are issued until new quota allocations are made. The sale or transfer of import permits among importers is prohibited under the Act; but, as discussed elsewhere, by the nature of things these import entitlements acquire a value of their own and become translated into higher prices at the retail level. Other costs are of course involved in the operation of the import control system. The paperwork, delays and other expenses incurred by importers also become ultimately translated into higher retail prices. In addition, the administration of the system imposes a substantial financial burden on the federal government, and ultimately on taxpayers.

The amount of the quotas for particular products is determined within the framework of the legislation and programs for the particular product concerned, not by the Special Trade Relations Bureau. However, the Bureau carries responsibility for the negotiation of bilateral restraint arrangements with "low-cost" suppliers of textiles and clothing, under the authority of the Secretary of State for External Affairs. The allocation of quota entitlements among importers is commonly on the basis of their past record of imports of the product concerned.

For some of the products on the Import Control List – for example coffee and, before 1985, beef – there are no quota limits, or quotas may be imposed sporadically. Although permits are required in order to import these products, these are issued freely on request.

Beginning in 1975, the government introduced an "import surveillance" system. This system is used to monitor the flow of imports of those textiles and clothing products that are not subject to quantitative limitations under bilateral restraint agreements with exporting countries but which nevertheless are considered to be "sensitive". Importers are required to obtain individual import permits, which are freely granted on condition that specified information is provided about contracts, delivery dates and other such matters. In effect, the system operates as an early warning system that can facilitate the quick imposition of quantitative controls if these are deemed necessary. The system can also, of course, act as a discouragement to the development of trade in products under surveillance. The paperwork, delays and expense involved in obtaining the required permits, as in the case of import permits generally, eventually translate into higher retail prices.

It should be noted that controls on imports of a range of products into Canada are administered under a variety of other legislation, apart from the Export and Import Permits Act. In particular, imports of wheat, oats, and barley and their products are controlled under the Canadian Wheat Board Act, and licences for the import of these products are administered by the Canadian Wheat Board.

Amalgamation of the Independent Import Institutions

Simplification and rationalization of the import system would be further advanced by the amalgamation of the Tariff Board, Canadian Import Tribunal and Textiles and Clothing Board. This amalgamation has been under discussion for some time and, indeed, is evidently now planned by the government. Hines strongly supports such an amalgamation:

> With respect to the independent import institutions, there can be little doubt that reform is needed. There is no justification for the present arrangements. The bodies should be amalgamated into one as soon as possible. Rather than transferring the Tariff Board appeal function to some other body, incorporation into the new organization would seem to be the best way to help keep the members abreast of commercial developments. Further, it would be important that the new body continue as a court of easy access and that, where possible, the legal trappings surrounding dumping or countervail inquiries be reduced. It is not necessary for the textile and clothing industry to lose any of the services now performed by the TCB. These can be carried out either by the bureaucracy or within the new board.

> Moreover, the industry may find over time that an upgraded research staff within a single enlarged body may better serve their information needs and that the impartiality of a new board could add credibility to their claims in injury cases and result in quicker action than under the existing regime. The mandate of the new board could be enlarged to permit Canadian industry in all sectors to petition it for public inquiries in cases of unfair import competition and enable it to carry out trade-related research and public inquiries, either on its own initiative or at the request of the government. It could also make recommendations in an advisory capacity where appropriate. (1985)

The authors of the present study can only agree that the present import system is cumbersome, overly complex and often impenetrable to all but trade policy specialists. Reform is needed, especially in the form of amalgamation of the independent boards. A new mandate for an amalgamated board however should, in the view of the authors, include stronger and clearer provisions requiring it to take greater account, in its deliberations, of the broader public and consumer interests.

Making Import Policy

Until the recent reorganization of departmental responsibilities, the responsibility for Canadian trade policy rested mainly with three departments: Finance; Industry, Trade and Commerce; and External Affairs. In 1982, the responsibilities of the two last departments were combined. National Revenue carries major responsibility for the administration of the customs tariff system, but not for tariff policy, which rests with the Finance Department. The departments of Agriculture, Fisheries, Energy, Mines and Resources, Consumer and Corporate Affairs, and others have a variety of trade policy interests in areas of their responsibility, and participate in the development and implementation of policies of special concern to them.[13]

The increased use of quantitative import controls as a trade policy instrument has led to a modification of traditional patterns of responsibility for trade policy among government departments. New arrangements are now needed to reach decisions on the use of quantitative controls, their severity and their duration and to issue import permits and administer quota arrangements imposed on imports. New processes are now also required to negotiate bilateral restraint arrangements with exporting countries, to supervise the flow of imports under these arrangements, and to participate in GATT negotiations and on-going GATT supervisory arrangements relating to the use of quantitative import controls.

These developments led to a further reorganization of responsibilities for import policies, export policies and policies for domestic economic development among departments and agencies in Ottawa. Other important changes in responsibilities included the 1982 re-organization of the department of External Affairs, as noted above, and the adoption in late 1984 of the Special Import Measures Act. Further, Canada's import system is now increasingly recognized as an integral part of domestic economic development policy, and is linked more closely with the range of federal government departments involved, as well as with provincial governments and private sector interests. As well, the process of managing comprehensive bilateral trade negotiations with the United States and a new round of multilateral negotiations in GATT will add major new complexities to the process of formulating Canadian import policies for the future.

The complexities of the import system have led to various proposals for its simplification. Hines concludes that while present organizational arrangements and existing procedures within and among government departments could be adjusted,

> ... this tinkering with the problem would put us no further ahead in addressing the real issues. The basic objective of another reorganization should be to reduce the present diffusion of trade responsibilities so that a trade minister and his officials would be in a position to develop a comprehensive trade policy relating to both goods and services which support domestic, industrial and economic development. Control of and responsibility for policy instruments relating to trade should be situated in one ministry. Such an arrangement should reduce but not eliminate consultation among government departments, bring together all the trade policy expertise within government, eliminate some of the confusion that exists at the present time, and permit a more focussed research effort on trade matters. (1985, p. 78)

Hines proposes two alternatives to achieve these objectives. One would be "the creation of a separate trade department much along the lines of the Office of the United States Trade Representative, with full responsibility for import and export policy, trade promotion and foreign investment policy." The second option suggested by Hines would be to assign the main responsibility for trade policy to the Department of Regional Industrial Expansion, although he suggests that "many will argue that putting import policy into the hands of a domestic industry department would be dangerous". For this and other reasons, the first alternative appears to be the most promising.

A step in this direction may have in fact been taken by the creation in late 1985 of the Trade Negotiations Office (TNO), to organize and conduct the negotiations for a new bilateral Canada-U.S. trade agreement and the prospective multilateral trade negotiations in GATT. To head the new negotiating team, Prime Minister Mulroney appointed Simon Reisman as Ambassador and Chairman of the Preparatory Committee for trade negotiations. Mr. Reisman reports to a new Cabinet Sub-Committee on Trade Negotiation through the committee's chairman, a post first occupied by the Right Honourable Joe Clark, Secretary of State for External Affairs, and subsequently by the Honourable Pat Carney, appointed as Minister of International Trade in a 1986 Cabinet shuffle. Both ministers are also members of the powerful Priorities and Planning Committee of Cabinet.

A central task at both the official and political levels is the management of relations with the provinces. Federal-provincial aspects of trade policy have received particular attention in the context of the bilateral negotiations, but may be equally important in the prospective GATT round. They include the role of the provinces in the actual negotiations and the question of how the federal government can enter into commitments in areas of traditional provincial jurisdiction (e.g., government procurement, forest management, liquor marketing practices). Consultations on negotiating mandates for Mr. Reisman on various issues also take place between federal and provincial officals and trade ministers and at First Ministers meetings (both public and private).

An important element of the preparations and the conduct of both bilateral and multilateral talks is the private sector advisory structure set up by the federal government in 1985. It consist of an International Trade Advisory Committee (ITAC), headed by former Northern Telecom Chairman Mr. Walter Light, and a series of 15 Sectoral Advisory Groups on International Trade (SAGIT). The 40 members of ITAC are drawn from business, labour, consumer groups, academia and research groups, and the committee concerns itself with broad national issues relating to trade policy. Two early reports prepared by ITAC dealt with the scope of the Canada-U.S. bilateral negotiations and the thorny question of inter-provincial trade barriers. In contrast, the SAGIT represent the interests of specific industries or groups of industries; the SAGIT chairpersons were named in April 1986, and each will eventually comprise about 15 members. This two-tiered system will provide a two-way flow of information between the government and the private sector on issues relating to multilateral and bilateral trade negotiations as well as on other trade issues.

Notes

1. The Customs Act was recently extensively rewritten basically to eliminate obsolete and inconsistent provisions; the new Act was presented in Parliament in June 1985 and adopted into law in February 1986.

2. See, for example, the "D" series of Memoranda issued by Revenue Canada.

3. A more complete account of the complexities of the classification system is in *A Report by the Tariff Board*, "Canada's Customs Tariff According to the Harmonized System", Volume 1, Chapters 1 to 24, Supply and Services Canada, 1985, pp. 4-6.

4. For an account of the Harmonized System and of the problems involved in converting to it from the existing Canadian system see *ibid.*, pp. 11-18.

5. For a detailed review of Canada's cheese import policies, see Canadian Importers' Association, *Cheese Imports in the 1980s*, March 1982.

6. Government of Canada, *News Release*, June 19, 1981, contains the government's response to the TCB report of June 30, 1980.

7. Canada, *News Release* No. 137, July 30, 1986, "New Textile and Cloghing Import Policy".

8. General Agreement on Tariffs and Trade, *Press Release* GATT/1290, 5 August 1986. "Extension of Multifibre Arrangement Agreed."

9. The base period was set as September 1, 1976 - August 31, 1977; initially the quota was set at 64 per cent of the base period levels, and was subsequently increased to 80 per cent.

10. The terms of the reference are in the *Report of the Anti-dumping Tribunal Respecting the Canadian Footwear Industry*, February 1981, Supply and Services Canada, 1981.

11. The report embodies, among other things, the results of an econometric study of the costs and benefits of the quotas, carried out by the Institute for Research on Public Policy.

12. The Import Control List is set out in the *Export and Import Permits Act Handbook,* issued periodically by the Department of External Affairs.

13. This account of the functions and roles of government departments and agencies is much abbreviated; a recent detailed study is in Hines, 1985. See also Protheroe, 1980, specifically Chapter 5.

Chapter 6:

Structural Adjustment, Protection, and Adjustment Policy

> "In that case", said the Dodo solemnly, rising to its feet, "I move that the meeting adjourn, for the immediate adoption of more energetic remedies . . ."
>
> Lewis Carroll, Alice's Adventures in Wonderland

The shifts in employment and investment patterns within and between industries that would occur under trade liberalization have formed the basis of several recent studies favouring freer trade. At the same time, the root cause of many of the objections to the liberalization of Canada's import regime is this same expected change in the structure of the Canadian economy. The issue of structural adjustment is clearly of central importance to both sides of the debate. Indeed, adjustment is being referred to more frequently in trade policy discussions as a necessary adjunct to trade liberalization, as a viable alternative to protectionism, and as a policy imperative in its own right.

This chapter examines the issue of structural adjustment and makes recommendations regarding the future course of adjustment policy in Canada. It argues the following points:

- The shifts in the pattern of economic activity resulting from trade policy changes are only a small part of the ongoing process of structural adjustment that occurs in all industrialized economies in response to factors such as technological innovation, the emergence of new foreign suppliers and competitors and commodity price changes.
- The adjustment process is essential for maintaining and increasing economic efficiency and international

competitiveness, the benefits of which accrue to the economy as a whole. The capacity of the economy to adjust – i.e., the ease with which economic resources can be adapted to new activities – will determine the extent to which the potential beneifts of trade liberalization are actually achieved.

- Some resistance to adjustment is inherent in the Canadian economy. Rigidities are especially serious in labour markets, and result both from government policy and from autonomous social, political and economic developments.
- Notwithstanding these rigidities, the evidence suggests that economic structures in Canada and other developed countries have responded to adjustment pressures; the adjustment options for workers, however, are more limited and more costly than those faced by firms.
- The regional dimension of the adjustment process, especially as regards single-industry towns, is one of the most serious problems facing proposed trade liberalization initiatives in Canada.
- While the role of government in encouraging structural adjustment in Canada has been ill-defined, the options for adjustment policy fall into four categories: slowing the pace of adjustment, compensating the losers in the adjustment process, facilitating adjustment, and anticipating adjustment pressures. Of these, only compensatory and adjustment-facilitating policies are both desirable and sufficiently feasible.
- Adjustment-related issues are likely to have some prominence on the agenda for international trade negotiations, especially in the areas of safeguards and subsidies.
- Rather than inhibiting support for a more liberal trade policy, the challenges posed by structural adjustment should serve to encourage trade liberalization as an essential element of a forward-looking economic policy for Canada.

Protectionism Versus Structural Adjustment

In the most general sense, the shifts in the pattern of economic activity resulting from trade policy changes are part of the ongoing process of structural adjustment that occurs in all industrialized economies in response to a wide variety of factors. Technological innovations, the emergence of new foreign suppliers and competitors, and energy price fluctuations are among the sources of adjustment pressures. These pressures generate market signals in the form of variations across industries in product prices, wage rates, and returns on investments. Certain government policies at home and abroad, including changes in tax systems and regulations and macroeconomic policies which may produce exchange rate misalignments, can also cause similar variations. In response to these signals, capital and labour are constantly being reallocated from less efficient, uncompetitive and declining economic activities to areas of emerging comparative advantage.

This dynamic process of reallocating economic resources is essential to maintaining and increasing economic efficiency and international competitiveness, the benefits of which accrue to the economy as a whole. From the viewpoint of individual economic actors, however, there is both an "upside" and a "downside" to such structural adjustment. Some industries expand while others contract: individual companies or corporate divisions invest, acquire other firms, and prosper generally while others close down, merge or shift production into more specialized lines. As a result, some workers will experience wage increases and improved employment opportunities, while others face periods of unemployment and redundancy of skills. But whatever the gains and losses may be for individual workers and firms, this process of growth and decline in different parts of the economy is fundamental to national economic development.

Just as trade liberalization stimulates such movements of economic resources with positive results overall, policies to protect domestic industries from international competition represent an alternative of a negative kind. From the particular viewpoint of workers and firms in import-competing industries, import restrictions may appear to be a viable response to most adjustment pressures. Resisting adjustment through protectionism allows them to avoid the adaptations of skills, production processes and locations, financial structures and other aspects of economic activity that are dictated by market signals.

At the level of government policy, protectionism and structural adjustment are commonly perceived as alternative responses to fundamental changes in the global economy. Policy instruments are available to governments to serve either purpose. Import quota regimes and voluntary export restraints on the one hand and industrial incentives and enhanced unemployment insurance benefits on the other have been among the most common Canadian policy responses to industries facing adjustment as a result of increased import competition. Attempts to use both types of policies, sometimes concurrently, have met with varying degrees of success as we shall see below.

While international competition is by no means the only important impetus for structural adjustment, trade flows and trade policies present perhaps the most clear-cut choices to economic agents and governments. The benefits of trade protection, in the form of employment, wages and profits at levels that are maintained or increased, are much more readily visible than the costs of protection, in the form of higher prices to consumers and consuming industries. The same can be said of the transitional process of adjusting to trade policy changes. The costs of adjustment are concentrated on a relatively small group of individuals while the longer term benefits of adjusting to freer trade (i.e. reduced costs of protection) are distributed more broadly throughout the economy. With this clear delineation of the consequences of any change in trade policy, structural adjustment and protection are, from a policy perspective, two very different sides of the same coin.

Trade policy changes are, of course, the main concern of this study. But what of the other developments in the global economy which presage changes in the structure of the Canadian economy? Global developments such as those reviewed in Chapter Four are by no means insignificant, in that they constitute the environment in which adjustment to trade liberalization must take place. Pressures for adjustment that are not directly related to trade policy or trade flows may strain the adaptability of Canadian firms, workers and industries, resulting in calls for government assistance even in the absence of reductions in import barriers.

This point is illustrated quite clearly in various works on the sources of employment changes in Canada (Robertson and Grey 1985), the United States (Krueger 1980, and Lawrence 1984) and other countries. These studies have found that for most import-competing industries, industry employment levels are most sensitive to changes in domestic demand and productivity growth. As Table 6.1 shows for Canada, changes in each industry in net trade (export minus imports), or even changes in imports alone, generally rank behind both productivity growth and domestic demand variations as a source of adjustment pressure, defined in terms of employment. Still less significant, in quantitative terms, are changes in trade flows which are directly related to trade policy decisions; the great majority of trade changes are autonomous and unrelated to tariffs, quotas, or non-tariff barriers. While the issue of adjustment to trade liberalization may have particular political resonance due to the

TABLE 6.1
Sources of Employment Growth in Selected Import-Competing Industries, 1967-81
(percent per year)

Major Group	(1) Growth Rate (Total Employment)	(2) Domestic Demand	(3) Exports	(4) Imports	(5) Net Trade	(6) Productivity Growth
Rubber	0.31	2.67	2.09	-2.82	-0.73	-1.63
Leather	-1.34	3.05	0.37	-3.18	-2.81	-1.58
Textiles	-0.78	5.08	0.49	-1.56	-1.08	-4.78
Knitting	-0.83	7.87	0.10	-5.20	-5.10	-3.60
Clothing	-0.22	2.72	0.52	-1.07	-0.55	-2.40
Furniture and fixtures	1.49	3.05	0.89	-1.01	-0.12	-1.45
Primary metals	0.68	2.54	2.57	-1.79	+0.78	-2.64
Metal fabricating	0.74	2.97	0.54	-0.75	-0.21	-2.02
Machinery	2.63	11.72	4.22	-9.62	-5.40	-3.69
Transportation equipment	1.44	5.68	7.92	-7.41	+0.50	-4.75
Electrical products	0.27	5.40	1.69	-3.66	-1.97	-3.15
Chemicals	1.41	4.84	1.96	-2.20	-0.24	-3.18
Miscellaneous	0.37	9.04	1.26	-6.25	-4.99	-3.69
All above industries	0.65	5.62	2.68	-4.09	-1.41	-3.56

Source: Matthew Robertson and Alex Grey 1985, "Trade-Related Worker Adjustment Policies: The Canadian Experience" (in *Domestic Policies and the International Environment*, Vol. 12 in the series of studies commissioned by the Royal Commission on the Economic Union and Development Prospect for Canada, edited by John Whalley), p. 186.

relatively concentrated interests involved, it represents an incremental addition to much greater pressures for adjustment stemming from other sources.

Rigidities and Resistance to Adjustment Pressures

The simple fact of pressures for adjustment, whether they stem from trade liberalization or from other changes in the global economy, does not necessarily imply that there will be an "adjustment problem" or a need for government policy actions. The economy may be quite capable of the required adjustment without any intervention or assistance by government. Unfortunately, there are a number of reasons why that capability may be lacking. In Canada, the catalogue of resistance to adjustment or rigidities in the economy includes the following pressures:

- public expectations of and government commitments to policies designed to maintain full employment and price stability. Attitudes and institutions based on economic conditions which prevailed in the steady growth, high-employment era of the 1960s have been slow to adapt to a fundamentally changed economic environment. As Jan Tumlir of the GATT Secretariat put it in 1978: "The rapid economic progress which liberal international policy makes possible generates growing expectations of further progress. . . . Economic progress implies novelty and social adaptation to it. But before this insight dawns upon the society, the state has been called upon, and has promised to make possible progress without change". (Tumlir 1978, pp. 6-7)
- the growth in the proportion of household wealth held in the form of non-portable, non-transferable assets. Christopher Green has described assets such as housing in declining, single-industry towns, seniority or tenure rights, and non-portable employer pension plan contributions as "fixities" which may reduce geographic mobility. (Green 1984, pp. 24-32) The increased prevalence of two-income households may have a similar effect. Provincial and municipal governments may also resist interregional migration within Canada since a decline in population increases the per capita costs of servicing government debts and providing capital-intensive public services with large fixed-cost elements. The fact that federal equalization payments to provinces

are based at least partly on population also suggests a built-in political resistance to labour mobility.

- legislation, collective agreements, and labour market policies that are oriented in general towards preserving employment and increasing job security. The increasingly fixed labour costs that have resulted from all of the above provide a disincentive to hiring even during cyclical upswings in the economy. Unemployment insurance benefits that are more generous in depressed regions and subsidies aimed at preserving jobs in sensitive industries and regions have also reduced the geographic, occupational, and sectoral mobility of the labour force.
- international competitive subsidization in "more desirable", targeted, high-tech or strategically vital industries. Some of the justifications for essential domestic capability in certain sectors, such as the national defence argument for maintaining U.S. steel-making capacity, may be outside the realm of economic analysis. Nevertheless, the maintenance of excess capacity in these sectors may distort labour and capital markets and contribute to inflationary pressures in ways that inhibit resource allocation in other parts of the domestic (and indeed the global) economy.
- A variety of rigidities generally afflicting market economies, including:
    - inadequate information, particularly in labour markets;
    - oligopolistic barriers to entry (and exit) in certain industries;
    - inadequacy of market signals to provide incentives for large-scale or long-term projects where social benefits exceed private benefits (e.g., energy, infrastructure, R&D); and
    - generalized risk aversion by investors, as regards development of "human capital".

Responses to Adjustment Pressures

With this impressive array of rigidities, many of them common to all industrialized countries, it may seem surprising that any structural adjustment takes place at all. In fact, there is some evidence which suggests that the response to adjustment pressures, including those stemming from international trade, has been significant in spite of these rigidities. A recent OECD study describes ways in which workers, firms and industries have adapted in recent years. (OECD 1984, pp. 104-5, 113)

Workers not actually displaced by trade changes appear to have moderated wage demands at least partially in recognition of the intensity of international competition. In Canada and several other countries, unit labour costs in the industries most exposed to import competition increased less rapidly than in manufacturing as a whole over the 1970s, as increases in productivity in these industries appear not to have been passed on in the form of higher wages. In addition, rates of increase in unit labour costs have not differed significantly between export-oriented industries and those industries that primarily serve the home market. This suggests that the effects of international competition on wage-setting behaviour are not limited to industries directly affected by increases in import penetration.

While workers who have remained employed definitely appear to have responded to trade-related adjustment pressures, the meaning of structural adjustment is no doubt clearer to workers who have actually lost their jobs. Although trade changes are not the major cause of job loss, as shown by studies of the sources of employment change (see Table 6.1), they are nevertheless a significant cause. Robertson and Grey (1985) estimate the change in employment levels attributable to trade for 13 Canadian import-competing industries over the period 1967-81 resulted in about 197,000 jobs lost. Corresponding calculations for domestic demand and productivity growth as sources of adjustment pressure yield figures of 782,000 jobs gained and 495,000 jobs lost respectively.

While the workers displaced as a result of trade changes are clearly a minority, even in industries with high levels of import penetration, they enter onto the same labour market as workers displaced for other reasons. Thus, not only does labour adjustment to changes in trade patterns clearly involve a substantial number of job losses, but it also interacts importantly with the response to other sources of adjustment pressure.

The OECD study identifies numerous examples of the responses of firms in industrialized countries to trade-related adjustment pressures. These include:

- in declining industries, such as integrated steel production in the United States, the avoidance of capacity expansion and limiting the modernization of existing equipment, while setting prices to maximize returns on existing investment;

- the entry of new firms (such as the mini-mill operators in the U.S. steel industry) into protected industries, thereby displacing older firms;
- the enhanced competitiveness of older firms, such as British Steel, by combining plant closures with more modern operating practices such as reduced energy consumption in existing facilities;
- in most OECD textile industries, and to a lesser extent in the clothing industries, cost-cutting through automation and reductions in unit labour costs, as well as product differentiation and concentration on high-fashion market segments where non-price competition and locational advantages are prevalent;
- in both North American and European automobile industries,
    - the rationalization of production facilities and the introduction of new technologies to increase flexibility of product mix and output volumes,
    - changes in industrial relations and personnel management policies to secure concesssions on wages and manning levels,
    - new procurement and component-sourcing policies including overseas out-sourcing and just-in-time inventory techniques, and
    - accelerated new product development, including the introduction of new materials and technical features;
- in a wide range of industries throughout the OECD, including U.S. microelectronics and European aerospace, the proliferation of vertical and horizontal joint ventures, licensing arrangements, mergers and equity swaps aimed at pooling technological and marketing skills and exploiting economies of scale at both national and international levels;
- foreign direct investment by exporters (e.g. Japanese automakers) operating in markets characterized by oligopoly power and subject to or threatened by protectionist measures; and
- the relocation of labour-intensive manufacturing operations by a wide range of companies, from Canadian microelectronics innovators to established German clothing manufacturers, to firms in low-wage developing countries from Mexico to Malaysia.

Several important conclusions fall out of this description of firms' and workers' responses to adjustment pressures. First, the workers' options are clearly much more limited than are those of firms. Second, many adjustment responses by firms actually contribute to the adjustment problems of workers. Third, for these reasons and in addition to the more theoretical reasons outlined below, government adjustment assistance policies should be primarily directed to workers and not to firms.

While many of the adjustment responses above are common to all industrialized countries, some interesting international comparisons of the overall adaptability of economic structures can be made. A study prepared for the Macdonald Commission reports on international differences in the pace of change in the distribution of employment and output across industries observed over the 1960s and 1970s (Charette et. al., 1985). Of course, these changes represent the outcome of the structural adjustment process, which depends upon both the adjustment pressures and the rigidities prevalent in each individual economy. Nevertheless, assuming that most industrialized countries have faced broadly similar adjustment pressures, observed rates of structural change can serve as rough indicators of a country's relative capacity for adjustment.

Figure 6.1 shows the progress of structural change in six industrialized countries. Even at the broad three-sector level of aggregation, changes in the distribution of employment have been significant in all of the countries and more extensive than changes in sectoral shares of gross domestic product, again suggesting a relatively heavy adjustment burden on workers as opposed to firms. The findings of the Macdonald Commission study further indicate that within the Canadian manufacturing sector, structural change among industries has proceeded at a rate similar to that in the United States and the United Kingdom, though this rate is slightly behind those in Germany, Japan and Sweden. In the service sector, Canada experienced slightly greater structural change than in the United States. On the basis of these observed rates of change, there is reason to believe that the Canadian economy is on the whole as capable of structural adjustment as most other industrialized countries.

The Regional Dimension

One dimension of the response to adjustment pressures which is particularly important in Canada relates to resource allocation between regions within the country. It is inevitable in any geographically sizeable economic unit that adjustment involves the movement of labour and capital not only among industries but also among regions. A large part of the adjustment pressures experienced by Canadian firms and workers are therefore tied quite closely to regional disparities in levels of economic

FIGURE 6.1
Sectoral Distribution of Employment and Gross Domestic Product

Canada

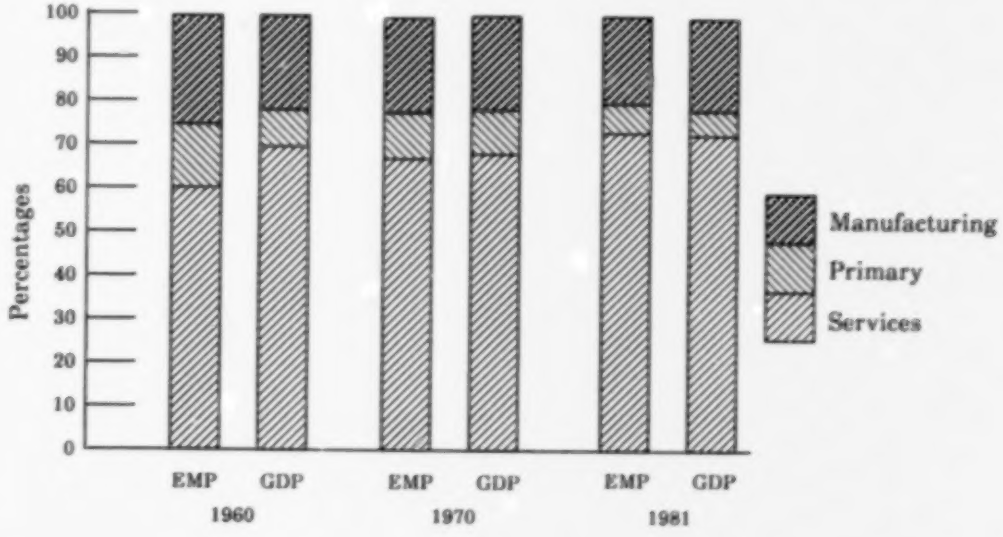


FIGURE 6.1 (Continued)

United States

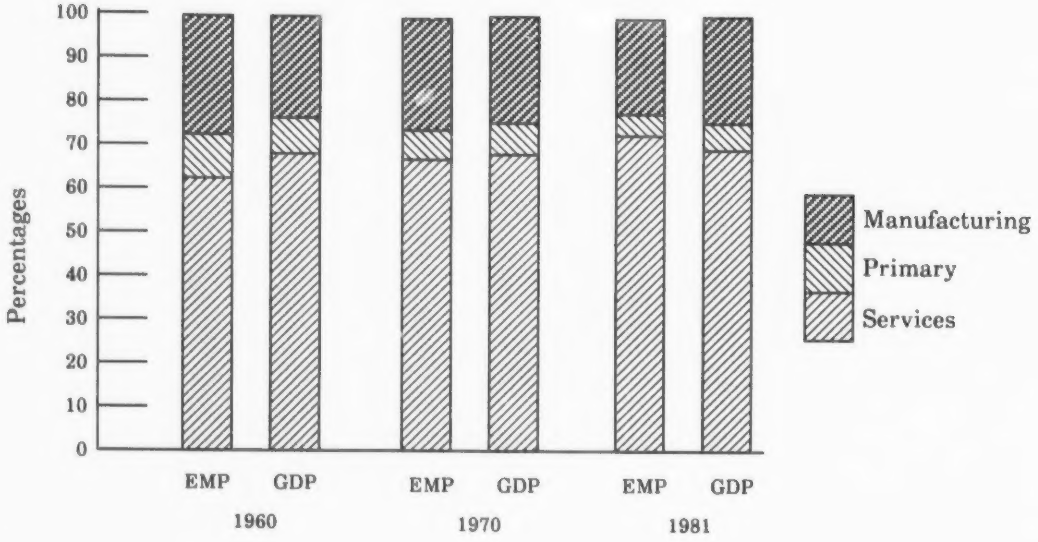
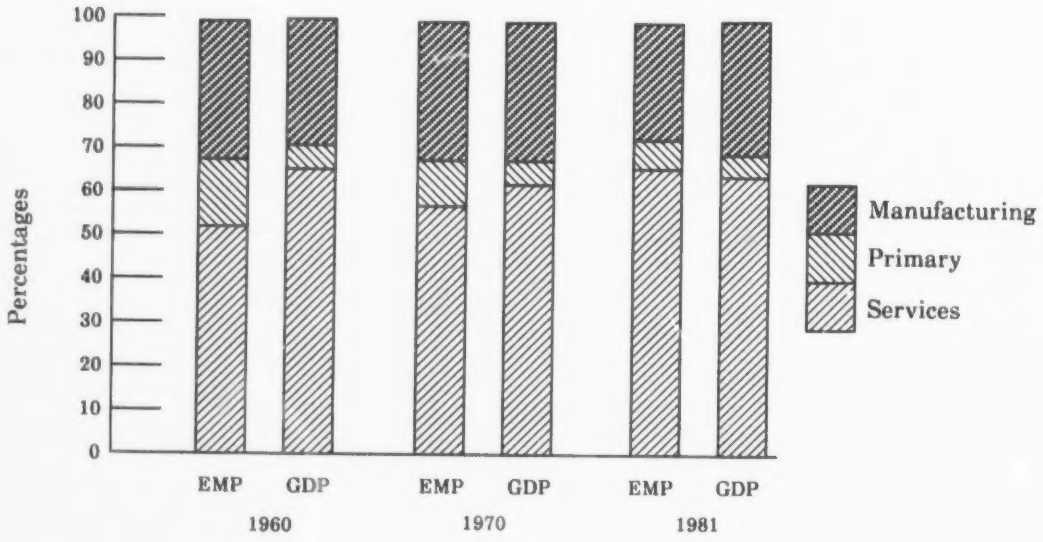


FIGURE 6.1 (Continued)

Average of Japan, Germany, U.K. and Sweden



Source: Author's calculations based on Charette et. al. (1985)

development. Government policies aimed at reducing these disparities consequently play an important role in the structural adjustment process.

The regional dimension to adjustment would receive still more attention if Canadian trade policy were to be liberalized. Increases in import penetration may have the effect, even in internationally competitive industries, of hastening the shutdown of less profitable operations and the relocation of production facilities to new, more commercially advantageous parts of Canada. As a recent study for the Economic Council of Canada concluded regarding Canada's past experience, "although trade liberalization has served to encourage a more competitive structure of industry in general, its uneven sectoral effect has been destructive of one of Canada's most crucial political purposes: the maintenance of balanced economic growth and income across the country". (Matthews 1985, p. 48)

To the extent that an industry's least profitable firms and plants are concentrated in depressed regions, lowering trade barriers would exacerbate regional economic disparities. The footwear industry may be a case in point, with its traditionally greater profitability in Ontario than in Quebec. Those uncompetitive industries that are predicted to decline absolutely or even disappear nation-wide under trade liberalization are also in many cases regionally concentrated (Harris and Cox 1984). The knitting mills, tobacco products, tanning and footwear industries each tend to be located within fairly limited areas. Looked at another way, a region with a narrow industrial base could experience greater adjustment pressures than other regions, due to reduced import barriers. The case of Quebec, where about 20 per cent of manufacturing employment is in the textile, clothing, and leather industries, comes immediately to mind. Furthermore, the concentration within Quebec of communities dependent on the most trade-sensitive industries is quite striking. Table 6.2, showing the distribution within Canada of single sector communities, illustrates these regional considerations even more starkly.

Given the strong regional dimension to structural adjustment in Canada, policies to encourage labour mobility have great potential to help reduce resistance to adjustment. However, the biases against inter-regional adjustment that are presently built into Canadian public policy will have to be examined carefully. For example, the incentives embodied in the regionally-differentiated unemployment insurance system mitigate out-migration from depressed regions. The system of federal transfer payment to the provinces based in part on provincial population

TABLE 6.2
Single-sector Communities by Region and Industrial Sector, 1976

Industrial sector	Atlantic provinces	Quebec	Ontario	Prairie provinces	BC, Yukon, & NWT	Total
Manufacturing (textiles, clothing, knitting, leather)	1	13	2	0	0	16
Manufacturing (other)	0	12	4	1	0	17
Mining	10	14	16	14	18	72
Wood based[a]	20	46	22	4	28	120
Food Processing	2	3	5	3	0	13
Fishing	47	1	1	0	0	49
Public administration[b]	6	8	6	4	3	27
Other[c]	5	4	4	5	3	21
Prairie service centres	0	0	0	91	0	91
Total	91	101	60	122	52	426

Notes: A single-sector community is a centre that depends upon one resource or one type of activity. It is defined as having at least 30 per cent of its employment in one sector, which may comprise a number of different but related SIC groups.

[a] Includes pulp paper mills. [b] Includes health and education. [c] Includes transportation and tourism.

Source: Department of Regional Economic Expansion, *Single Sector Communities*, DREE occasional paper (Ottawa: Supply and Services Canada, 1979); reproduced in Christopher Green, 1984.

provides a similar disincentive to provincial governments as regards out-migration.

That the federal government is receptive to provincial concerns on this point is indicated by a federal official's acknowledgement that the Canada Manpower Mobility Program is not widely advertised for precisely this reason. (*Globe and Mail*, 3 March 1983 as quoted in Saunders 1984, p. 32) It is clear that not only would the costs of adjustment to trade liberalization fall unevenly on Canada's regions but the most obvious method of reducing resistance to inter-regional adjustment, via mobility grants to workers, is likely to meet with stiff opposition as well.

Rigidities and resistance to structural adjustment will no doubt continue to afflict the Canadian economy. Some can be directly addressed by public policy, while others are either more deeply ingrained or largely exogenous. There is evidence however that responsiveness to adjustment pressures is quite substantial in Canada in spite of the presence of rigidities. Trade liberalization would moreover add only marginally to the adaptability that will be required of Canadian workers, firms and industries in the normal course of events.

The product of this marginal addition may nevertheless be significant in terms of its political impact, due to the relative concentration of interests benefiting from protection and opposing trade liberalization. In addition, the removal of rigidities will significantly increase the benefits obtainable for the economy as a whole as a result of trade liberalization. It is for these two basic reasons that government policies toward structural adjustment have become an important part of the debate on Canadian trade policy.

The Role of Government

The Canadian government to date has never developed a comprehensive or coherent policy toward structural adjustment. The rhetoric of successive governments has always been supportive of measures to facilitate, enhance or otherwise favour adjustment, particularly in the context of measures to accompany restrictive trade policies such as the 1970 textile policy. However, the patchwork of policy instruments put in place over the past few decades exhibits no consistent approach to government involvement in the reallocation of either labour or capital in response to trade and other changes. Table 6.3 provides an illustrative list of the wide range of policy instruments that have potentially significant effects on the process of structural adjustment.

TABLE 6.3
Illustrative List of Policies Influencing Structural Adjustment

1. Direct Government Involvement in Economic Development	(a) Subsidies: i) current production subsidies, including wage subsidies ii) capital subsidies iii) R&D subsidies, including government-sponsored R&D iv) export subsidies and promotion v) concessionary export credits and financing vi) interest rate subsidies (b) Discriminatory government procurement practices (c) State trading (d) Tied aid (e) Government entrepreneurship (g) Government provision of financing, including credit at market or lower rates, loan guarantees and loan insurance (h) Government defence production programs (i) Countertrade and offset arrangements (j) Competition policies, including selective relaxation or non-enforcement of merger and collusion provisions (k) Administered prices and controls in regulated industries (l) Financial/capital market regulations (m) Regulation and surveillance of foreign investment
2. Manpower and Related Policies	(a) Service-type instruments, including counselling, training, technical assistance and market information provided by government to management and labour (b) Geographical and occupational mobility incentives and grants to workers

TABLE 6.3 (Continued)

	(c) Training and re-training programs for workers, including government-run schemes and subsidies to educational institutions and employers
	(d) Income maintenance schemes, including unemployment insurance and adjustment assistance benefits
	(e) Job security legislation and policies governing collective bargaining procedures
	(f) Trades and professional qualification standards and certification
3. Trade Policy Measures Primarily Affecting Traded Quantities	(a) Import quotas, including safeguard actions and other "auction" and "non-auction" quantitative restraints
	(b) Bilateral agreements, including Orderly Marketing Agreements and Voluntary Export Restraints
	(c) Performance requirements for domestic sourcing or exporting
	(d) Buy-domestic campaigns
	(e) Export controls on strategic and other goods
4. Trade Policy Measures Operating through the Price Mechanism	(a) Tariffs
	(b) Variable import levies
	(c) Duty remission programs
	(d) Supplementary Import Charges
	(e) Anti-dumping and countervailing duties
	(f) Tariff quotas
	(g) Import deposit schemes
	(h) Export taxes
5. Taxation System	(a) Non-neutral border tax adjustments
	(b) Variations in indirect and direct taxation

TABLE 6.3 (Continued)

		(c) Variations in depreciation methods and other deductible expenses
		(d) Differential taxation of exporting industries and firms
		(e) Tax credits and rebates
		(f) Investment allowances, such as reductions of tax base proportional to investment expenditure
		(g) Investment reserve funds for tax-free placement of retained earnings
6.	Customs and Administrative Procedures	(a) Customs valuation
		(b) Customs classification
		(c) Documentation requirements for imports
7.	National Standards	(a) Variations in health and safety standards for products and production methods
		(b) Variations in packaging and labelling standards
		(c) Marketing and distribution regulations and controls
8.	Macroeconomic Policies	(a) Monetary policy, including open market operations and other techniques of influencing interest rates
		(b) Fiscal policy, including long-term trends in budget deficits
		(c) Exchange-rate management and participation in international exchange-rate regimes

Source: G.E. Salembier, "Negotiating Structural Adjustment Internationally: Challenges for Domestic Policies", Institute Discussion Paper in International Economics No. 8504, (Ottawa: The Institute for Research on Public Policy, 1985).

As is evident from Table 6.3, much of what could be considered adjustment policy overlaps to a significant degree with trade and industrial policy, as well as with other policy areas. In terms of the instruments employed, though not necessarily with respect to the objectives pursued, adjustment policy is a subset of these other policy areas. Given the number of instruments available and the broad and sometimes quite vaguely defined objectives of each of these categories of government action, there is clearly a need to be both selective and consistent in terms of the demands placed on a given policy instrument.

The extensive overlap between categories of policy instruments is not the only problem in formulating a consistent policy approach toward structural adjustment in Canada. A more important difficulty stems from the identification of adjustment policy with something like an "industrial strategy". The latter term has a rather lengthy and controversial history in Canadian economic policy debates. In the course of those debates, it has acquired a fair amount of intellectual and ideological baggage, and this poses a problem when industrial strategy gets confused with adjustment policy.

To the extent that the two concepts can be distinguished, advocates of a Canadian industrial strategy have had fairly little to say on the question of adjustment policy. Industrial strategy, though it has been defined in any number of different ways since at least the 1960s, generally entails an element of conscious, comprehensive government planning with respect to the structure of economic activity as among industries or sectors. Most industrial strategy arguments contemplate movement toward some optimal or preferred economic structure, most often one with a larger manufacturing sector and/or more R&D activity. Not only does this require resistance to adjustment pressures acting in opposing directions, but it also implies that, once attained, the preferred structure should not be unduly disturbed.

The other side of the Canadian industrial strategy debate has also been less than useful from the perspective of adjustment policy. Claims that government bureaucracies are unable to administer policies in a sufficiently coordinated fashion or that they are incapable in principle of improving upon the market mechanism have been used to support arguments against any and all policies characterized as interventionist. Most critics of industrial strategy acknowledge that some situations of imperfect markets or market failure may justify limited government intervention. However, the general presumption in favour of the allocative efficiency of the market often seems to shade into the further presumption that intervention can only make things worse.

Whatever the intrinsic merits of these polar positions on industrial strategy, the problem is that the idea of enhancing the responsiveness of the economy to adjustment pressures, including trade policy changes, tends to be obscured or ignored in the course of the debate. If the instruments of adjustment policy were entirely separate from those contemplated as part of an industrial strategy, the problem would be a manageable one, but this is unfortunately not the case. The extensive overlap between trade, industrial, and adjustment policies means that the controversy over the appropriate degree of government intervention in the economy tends to spill over into the adjustment aspects of proposals for trade liberalization.

It is important that policies put in place to deal with adjustment to trade policy changes, or for that matter to any other sources of adjustment pressure, *not* be viewed in the light of the traditional debates over industrial strategy or interventionism. Governments do intervene in all industrialized economies, and it is best from the point of view of adjusting to the reduction of trade barriers to simply acknowledge this fact. Realistically, the relevant question is not whether intervention should occur – indeed, existing intervention in the form of protectionism gives rise to the issue in the first place – but rather how it should occur, and to what degree.

Concepts and Principles of Adjustment Policy

Three general considerations underlie most analyses of government policies aimed at influencing the structural adjustment process: economic efficiency, distributional equity, and political efficacy. The objective of economic efficiency, loosely defined as the production at least cost of the mix of goods and services desired by consumers in hypothetically perfect markets, is that which has most exercised the economics profession. Most economists would also acknowledge, if only as an annoying constraint, the need to ensure a degree of equality in the distribution of income within society. The goal of political efficacy relates to the necessity of paying off or otherwise securing the support of groups opposed to freer trade if politicians are to be expected to support trade liberalization themselves. While the equity and efficacy concepts can be closely related, the latter allows that the political process may give more weight to particular lobbying interests than is equitably justifiable – the squeaky wheel phenomenon.

Efficiency-based arguments for government intervention in the economy are usually based on the existence of market failures, situations in which the market's price mechanism fails to bring about the socially optimal amount of production of a good or service. The best illustration of a market failure directly related to the adjustment process is in the market for training or education. Workers may underinvest in training from the point of view of society as a whole, which would benefit from the increased productivity and flexibility of workers willing to retrain as new opportunities arise, for example in expanding export industries following trade liberalization. Reasons for such underinvestment include lack of access to financing, since banks do not accept human capital as collateral, or inadequate information as to future supply and demand conditions for particular skills. Firms may also provide less on-the-job training than would be socially optimal if they cannot receive guarantees that newly-trained employees will not quickly change jobs. These market failures constitute justification in efficiency terms for government support in the form of training facilities, subsidies, or loans to aid workers displaced by import competition.

Equity-based arguments for government involvement in structural adjustment have not received as much attention by economists. In general, these arguments are simply based on the presumption of a social consensus favouring compensation for individual losses due to a change in trade policy or trade patterns that is in the general interest. An additional case can be made, in some instances, however, based on the redistributive consequences of trade restrictions described in Chapter Four. Removal of protection results in a transfer to consumers from producers and, by extension, from the workers and owners of capital in the formerly protected industry. In industries where wages are lower than average in spite of existing protection, the removal of trade restriction would tend to aggravate income inequality overall, and government assistance to displaced workers would therefore be justified.

Adjustment Costs

In line with the clear distinction between efficiency and equity considerations, economists have developed the dual concepts of social and private adjustment costs. Social adjustment costs are incurred by the economy as a whole and are due to the loss of output to the economy during the transition following a trade or trade policy change as resources are temporarily unemployed. Private adjustment costs are incurred by individuals and consist of the income lost by workers and owners of capital during such a transition.

Most studies of adjustment costs have focused on workers rather than on capital owners for essentially two reasons. First, the plant and equipment idled as a result of trade change may be quite industry-specific with few viable alternative uses; from the perspective of the economy as a whole, the social cost of its continuing idleness may therefore be low or zero. Workers, on the other hand, are more likely to be capable of fulfilling alternative tasks, especially if retraining is possible. Second, the private adjustment costs incurred by capital owners are of less concern on equity grounds since, in contrast to workers, they generally have some opportunity to diversify their asset portfolios to guard against risks such as trade changes. Notwithstanding such exceptions as small owner-operated businesses and those which have only recently invested large sums in long-term projects, there is on the whole much less social consensus on the government's obligation to compensate firms for their private adjustment costs.

The methodology developed by Jenkins et. al. (1978) for empirically estimating the magnitude of adjustment costs has gained acceptance as a tool of analysis for policy purposes. The Canadian Import Tribunal, for instance, commissioned a study using the Jenkins approach as part of its 1984/85 inquiry into the footwear industry. The approach essentially involves comparing workers' wages and their average length of time employed and unemployed before and after separation from a trade-affected industry. The major difference between the measures of social and private costs is that the income losses which make up private costs are mitigated by the amount of unemployment insurance (UI) benefits workers receive and by the fact that less income tax is paid by these same workers while they are unemployed. Social costs, on the other hand, are measured gross of tax and exclude UI benefits since these amount to transfers rather than costs to the economy as a whole. Thus, roughly speaking, private costs are equal to the difference between after-tax wages, after-tax UI benefits, and the value of leisure time for workers not laid off as compared to the same amounts for workers who are laid off from the industry permanently and who subsequently find jobs elsewhere. Social costs are equal to the difference between gross-of-tax wages earned plus the value of leisure time for workers who remain employed in the industry and those who do not.

Table 6.4 gives a sample of results from studies employing the adjustment cost methodology. Three broad observations can be made. First, both private and social costs are very sensitive to

TABLE 6.4
Selected Adjustment Cost Estimates

	(constant 1984 $)			
	Social Adjustment Costs (Benefits) per worker		Private Adjustment Costs (Benefits) per worker	
Displaced Workers' Characteristics	5-year total	% of gross wages	5-year total	% of income before layoff
All Sherbrooke, Quebec workers				
male, 40, dependents	3,449	4.9	-	(2.0)
male, 25, no dependents	(6,244)	(11.2)	-	(14.0)
female, 25, no dependents	2,593	7.0	-	(10.7)
female, 40, dependents	11,705	23.1	-	2.6
All footwear workers:				
Average Ontario worker	2,139	3.9	(1,986)	(3.5)
Average Quebec worker	855	1.7	(4,179)	(8.1)

Sources: Graham Glenday, Glenn P. Jenkins, and John C. Evans, 1980. *Worker Adjustment to Liberalized Trade: Costs and Assistance Policies.* World Bank Staff Working Paper No. 426, Washington, D.C.: World Bank.

Jahangir Alam, 1985. *Cost of Dislocation: An Investigation into the Nature and Magnitude of Labour Adjustment Problems in the Canadian Footwear Industry.* Prepared for the Canadian Import Tribunal at the Canada Employment and Immigration Commission.

the demographic characteristics of the workers displaced. Age, sex, and geography are among the variables with a large influence on the magnitude of adjustment costs. Second, from the individual worker's point of view, the adjustment process often seems to produce private benefits rather than costs, or income gains rather than losses. This seems to be especially true for trade-sensitive industries (footwear) and regions (Sherbrooke). In one study, displacement of younger male workers also gave rise to social benefits rather than costs. Finally, it is worth noting that social costs appear to exceed private costs in all cases (as would be expected given the above operational definitions). Consequently, even when no political pressure is brought to bear by affected workers by reason of the lack of private adjustment costs, some government policy response may nonetheless be in the interest of the economy as a whole due to the presence of social adjustment costs.

Some Practical Policy Problems

The concepts of social and private adjustment costs as outlined above are, to be sure, useful tools of policy analysis. Unfortunately, they are not without serious drawbacks. Some of their most important limitations stem from the difficulty of including as private costs the declines in housing values and the effects reduced local spending and income on merchants and taxpayers that may occur in smaller communities hit by large layoffs. Moreover, the psychological costs associated with periods of unemployment and interregional migration are impossible to quantify.

Aside from these problems of measurement, there are a number of other practical difficulties encountered by economists in dealing with the policy implication of adjustment to trade liberalization. For one thing, it is usually difficult to determine whether a given instance of job losses is due to trade changes or trade policy decisions or to any number of other factors which can bring about layoffs and bankruptcies in the normal course of events. Adjustment policies are not appropriate, for example, in cases where firms collapse and jobs are lost due to poor management practices or extended strike action by workers.

Another difficulty relates to the different causes of increases in imports, not all of which call for adjustment policy responses. A general increase in imports that accompanies an economic recovery, a common phenomenon in Canada and elsewhere, is certainly no cause for concern. Imports may also increase as a result of an overall decline in a country's international competitiveness, due to exchange-rate appreciation or more rapid increases in costs and prices at home than abroad. The policy response called for in these cases is neither adjustment policy nor protection via contingent safeguard procedures but macroeconomic policy measures to alter the exchange rate or restrain inflation. The current situation of a greatly appreciated and probably overvalued U.S. dollar is an illustrative case in point.

Situations that do call for adjustment policies may arise when imports of particular products increase, as opposed to a general rise in the level of imports. These may be due either to policy changes such as trade liberalization or autonomous developments such as trends in consumer tastes or changes in international patterns of comparative advantage. Just what types of adjustment policies are best will be discussed shortly. It must be emphasized, however, that even properly designed adjustment policies should not in principle be implemented in response to general increases in import levels or import penetration or changes in the overall balance of trade.

The problem with applying this principle is apparent at the level of individual industries and firms, where most economic policy is decided. It is often impossible to distinguish general from specific import increases and to determine whether declining international competitiveness, trade liberalization or changing comparative advantage is the cause. Individual workers and firms may perceive similar patterns of lost jobs and sales whatever the cause of increased import competition. The resulting political pressures for protection from any rise in imports and the conceptual difficulties in distinguishing different causes of import increases make it all the more important to use only adjustment policies that are as non-distortionary as possible.

A further complication in the analysis of the adjustment implications of trade liberalization stems from the links between the functioning of the adjustment process and the overall performance of the economy. If the reallocation of resources to their most efficient uses is proceeding slowly or being resisted, for example through protectionism, the macroeconomic objectives of full employment and price stability will be more difficult to achieve. Casual observation suggests that countries that have experienced more rapid structural change also seem to have had more positive, and less variable, economic growth rates. Germany and Japan, which the Macdonald Commission study found to have more rapidly changing economic structures, tend to exhibit more definite upward growth trends with less fluctuation than most other countries.

In turn, if macroeconomic performance is poor, with high inflation and unemployment persisting over time, the adjustment process at the microeconomic level will be more painful for workers and firms and hence will more likely be resisted. The Jenkins studies show that one of the most important determinants of adjustment costs is the overall unemployment rate. Inflation also impedes adjustment by introducing uncertainty and confusion into the price signals that provide the incentives for resource reallocation. In short, notwithstanding the job-creating effects of trade liberalization, if the macroeconomic environment is such that there are few jobs for trade-displaced workers to go to, adjustment to trade liberalization will be more costly to both individuals and society as a whole. The size and scope of the adjustment programs required will be correspondingly greater, and their fiscal costs higher. In a sense, macroeconomic policies conducive to generalized, non-inflationary economic growth may be the most effective "adjustment policies" of all.

A final practical difficulty with the use of adjustment policies relates to the possibility of barriers to entry faced by firms in export industries that are intent on expanding to take advantage of increased market access. Such barriers would be particularly problematic for firms operating from a small economy like Canada. They may take the form of extensive economies of scale or product differentiation in export industries, necessitating large up-front investments in plant and equipment or marketing and distribution in order to achieve cost competitiveness and market penetration. Recent studies (e.g. Harris 1985) provide some evidence that the potential growth of intra-industry trade, in which differentiated products may be profitably produced and traded by firms operating at different scales, can mitigate these barriers to some extent. In effect, trade liberalization may allow domestic firms to succeed, through non-price competition in selected foreign market niches, in spite of barriers to entry into more traditional product lines. Nonetheless, the problem of entry barriers may frustrate the use of adjustment policies directed at displaced workers or firms in trade-sensitive industries.

Canadian Experience with Adjustment Policies

In spite of the practical difficulties of applying concepts and principles to the formulation of adjustment policies, the Canadian government has over the years used a variety of ad hoc measures to influence the adjustment process. These measures have usually been justified by politicians and officials in terms of the ultimate objectives of efficiency, equity, or political efficacy, or some combination of the three. For purposes of discussing the Canadian experience with adjustment policies, it is more useful to focus on how these policies influence adjustment. To this end, four basic functions may be distinguished:

- *slowing or "smoothing"* the pace of adjustment, or limiting the extent of adjustment pressures such as those stemming from trade policy changes;
- *compensating* individuals suffering losses during the adjustment process, either directly or through the creation of alternative employment opportunities;
- *facilitating* the adjustment process, or making it easier for labour and capital to shift across industries and geographically; and
- *anticipating* adjustment pressures by actively redirecting resources away from declining industries and toward more promising activities, thereby preventing the emergence of resistance to adjustment.

This classification scheme is less than perfect, in that each policy instrument may fulfill more than one of the four functions. It does, however, provide a framework for analyzing the overall direction of adjustment policy and demonstrating where different policies will conflict and where they will be mutually reinforcing.

Slowing the Pace of Adjustment

The best Canadian examples of policies aimed at slowing the pace of adjustment are in the "soft sectors"—textiles, clothing and footwear. The most recent policy toward the textiles and clothing industries, announced in 1981 and due to expire in 1986, continued the dual adjustment/protection orientation established in the 1970 Textile Policy. According to the government's 1983 trade policy review, the restrictions imposed on textile and clothing imports are intended "to facilitate smooth and balanced adjustment" (p. 94). In other words, adjustment in this case is slower and less extensive than would otherwise be the case. The sequence of Canadian government decisions to impose import quotas on footwear has also been concerned with the role of protection in buying time for adjustment or "restructuring" within the industry.

The effectiveness of trade restrictions in slowing the pace of adjustment should not be taken for granted. In the case of textiles and clothing, fairly rapid changes in employment levels seem to have taken place in spite of tariff and quota protection. Comparing the two five-year periods 1972-77 and 1977-82, a recent study by the Canadian Textiles and Clothing Board shows that combined employment in the textiles, knitting and clothing industries dropped 9.9 per cent (19,942 jobs) over the first period and a further 6.6 per cent (12,035 jobs) over the second. Estimates by Hazledine (1981) based on 1978 data show that the total protection afforded the industry has saved only about 13,366 jobs. Assuming that his analysis would give similar results for later periods, tariffs and quotas seem to have prevented less than one-third of the job losses that would otherwise have taken place. It is worth noting as well that in spite of this protection, many more sub-sectors of the textile and clothing industries turned out to be "losers" rather than "gainers" over the period 1966-1980 in terms of their shares of the apparent Canadian market. (Matthews 1985, p. 32)

Moreover, whatever the decreases in the pace of adjustment that have been achieved by protection, they do not seem to have satisfied domestic producers. The Textile and Clothing Board's interim report on its 1985 inquiry into the future of the protection of these industries opens with the following quotations from textiles and clothing industry representatives respectively:

> What is needed is not only a stop to further erosion of domestic producers' share of Canadian textile and clothing markets, but also a retrieval of market share lost to imports. This would require rollbacks from existing import levels . . . a necessary precondition to a new policy for the longer term . . . (p. 1)
>
> There is a genuine desire in the industry to move forward towards more positive adjustment. However, the situation of the industry has deteriorated to the point where it is necessary to re-trench for the industry to recover before further liberalization can be contemplated . . . (p. 2)

The slowing of adjustment achieved through protection has evidently not been sufficient to secure support for even the existing degree of openness of Canadian markets, let alone further liberalization. More direct compensatory measures, such as those described below, could only be an improvement in this respect and would not entail the same overall costs to the economy.

Not only does protection often fail to slow adjustment sufficiently but it may also have quite perverse effects in terms of employment. The reduced risks faced by producers in protected markets may lead them to undertake capital investments that would otherwise be perceived as too risky. Where these investments embody new labour-saving technologies, as is often the case, protection may actually increase the amount of employment dislocation in an industry.

The higher prices and higher rates of return that result from protection may be counterproductive in a different way, leading to an inflow of resources into declining industries, rather than the outflow dictated by efficiency concerns. Where there are few barriers to entry into an industry, even temporary protection may have this effect. The Canadian footwear industry, into which entry can be easily achieved by leasing the required machinery and equipment, is a case in point. The Canadian Import Tribunal in its 1985 report on the footwear industry noted that there has actually been a small increase in the number of firms in the industry during the recent years of import restrictions. The Tribunal also argued that "the lack of major structural change could reflect the continuing influence of a tariff in excess of 23 per cent and the market share protection afforded by the quota system ..." (p. 77). Thus while protection may moderate adjustment costs, it may also perpetuate production in declining, uncompetitive sectors.

The use of trade restrictions to slow the pace of adjustment is sometimes advocated on the grounds that protection can be made explicitly temporary and/or contingent upon a firm's adjustment plans. The 1970 Textile Policy contained elements of both arguments. As regards the linkage to adjustment plans, the above quote from the clothing industry submission to the Textile and Clothing Board seems to contemplate making adjustment contingent upon prior guarantees of protection, rather than the reverse. At any rate, linking protection to a firm's commitments to adjustment strategies would require that the industry-wide benefits of protection be conditional upon the achievements of individual firms, something which might give rise to potentially serious free-rider problems. Some firms would rationally attempt to obtain the benefits without undertaking the adjustment, in the hope that the adjustment strategies of other firms would be sufficient for the government to maintain protection.

The problem with temporary protection as a stimulus to adjustment is that workers and firms must remain convinced from the point in time when protection is first granted that a future request will be treated differently. Only in this way can an effective linkage be maintained over time between the protective measures and the required structural adjustment. However, as the GATT Secretariat has quite succinctly noted regarding safeguard protection in particular:

> . . . industries may become vulnerable to injury caused by the importation of competing products precisely because they have failed to adjust in time to changing market conditions. The effect of a safeguard measure is to relieve the pressure for such adjustment. There is thus an implicit contradiction between the stated objective and the immediate effect of the measure taken, which may explain why many safeguard measures, both legal and illegal, have proved extremely difficult, if not impossible, to eliminate. (GATT 1984, *Structural Adjustment*, p. 2)

Compensatory Adjustment Policies

Policies aimed at compensating individuals directly for adjustment-stated losses have a much more favourable track record in Canada than those aimed at slowing adjustment. By far the largest such compensatory policy is the provision of unemployment insurance (UI) benefits to workers. The UI system, of course, does not distinguish trade-related job losses from all other instances of employment dislocation. It is possible to make an argument for special assistance to workers unemployed as a direct result of trade or trade policy changes, on the grounds that less information is available to workers on trade development than on other sources of adjustment pressure, such as technological change. It is more useful, however, to focus on the effects of the compensation program rather than on the precise cause of job losses, which is often impossible to determine in any case.

The preponderant influence of the UI program notwithstanding, there have been a number of adjustment assistance programs in Canada specifically tailored to workers experiencing trade-related employment dislocation. For the most part, eligibility for this assistance has not been strictly tied to either measured increases in imports nor to government decisions to lift quotas or tariff protection. Instead, the programs have been restricted to designated sectors and communities that are especially sensitive to trade or trade policy changes.

The first specifically trade-related adjustment program was the Transitional Adjustment Benefits (TAB) program implemented in 1965 upon the conclusion of the Canada-U.S. Auto Pact. In place until 1976, the TAB program provided supplementary unemployment insurance benefits to laid-off auto workers, with about 3,000 individuals receiving benefits over the life of the program. In 1971, adjustment assistance was extended to textiles and clothing workers under the Adjustment Assistance Benefits (AAB) program, and footwear and tanning workers become eligible in 1978. Both the AAB and its 1982 successor, the Labour Adjustment Benefit (LAB) program, were designed specifically to assist older workers displaced from the designated industries.

Until 1982, only around 700 workers were receiving benefits under the LAB program at any one time. By April 1985, it had grown substantially to the point where 4,900 workers, 85 per cent of them from the footwear, textiles and clothing industries, were receiving average benefits of $175 weekly, with a total expenditure of $42.2 million in 1984/85.

Much of this increase was due to two adjustment programs established in 1981, the Industry and Labour Adjustment Program (ILAP) and the Canadian Industrial Renewal Program (CIRP). Both have significant compensatory features closely related to their primary intended purposes of facilitating adjustment (described below). Adjustment assistance under these two programs takes the form of additional funds provided to the LAB program and targeted to designated communities.

The increase in the number of workers receiving benefits took place in spite of the fact that eligibility for ILAP and CIRB was made subject to the dual criteria of lay-off from a designated industry *within* a designated community. The fact that the two programs coincided with the 1981-82 recession, which hit the designated industries especially hard, was doubtless a contributing factor. While sales volumes in textiles, clothing and footwear had largely recovered by October 1984, employment was still down by about 21,000 jobs.

At first glance, the rather small size of Canadian adjustment assistance programs may make them seem insignificant in the larger context of the adjustment process. For example, in comparison to the U.S. Trade Adjustment Assistance (TAA) program, which at its height in 1980 involved $2.2 billion in benefits for 570,100 workers, Canadian programs are minuscule in terms of both funding and number of workers assisted. Two important qualifications to this assessment must be noted. First, the Canadian programs have been designed to avoid unnecessary and inadvertent overlap between regular UI benefits and adjustment assistance benefits. In the United States, the costs of such wasteful duplication were a major factor in the 1981 decision to scale down the TAA program.

The second and more important point to note regarding the apparently small size of Canadian programs relates to the problems that may arise when compensation is so readily available that it actually hampers the adjustment process. As Pearson and Salembier (1983) note, some evidence exists to suggest that TAA payments to U.S. workers may have prolonged unemployment for some. (p. 48) The Canadian LAB program, while it has been criticized as too restrictive in its conditions on age, length of employment in the designated industry, and size of lay-off, is less likely to either overcompensate or significantly hinder the process of adjustment.

Trade-related adjustment programs for workers have an indisputably important role to play in adjustment to trade liberalization. They can benefit the economy by reducing social adjustment costs, improve equity by reducing private adjustment costs, and, perhaps most importantly, secure support of initiatives to liberalize trade. What must be recognized, however, is that there exists a certain margin of workers in every industry that has the capacity to adapt to structural change. This marginal group consists of those workers with sufficient information, ambition, access to capital and risk-taking attitudes to change jobs without incurring sizeable adjustment costs. While there are labour market measures that can and should be used to increase the size of this margin, it is important to ensure that compensatory measures do not impede its development.

Policies to Facilitate Adjustment

Both labour market measures and industrial incentives of various types have been used in Canada with a view to facilitating adjustment. The above discussion of adjustment costs referred to the greater importance, on both efficiency and equity grounds, of labour adjustment policies as opposed to measures operating on the capital side. Accordingly, this section will discuss labour adjustment measures in somewhat greater detail. In addition, while the focus of this chapter is on adjustment to trade liberalization, it is important to recognize that the benefits of trade liberalization will be more easily achieved in an economy with greater overall flexibility or capacity for adjustment. General measures to circumvent rigidities are therefore at least as important as specifically trade-related adjustment policies.

Labour market measures to facilitate adjustment are of four basic types: geographic mobility incentives; information and forecasting services; retraining and educational facilities and subsidies; and other measures such as portable wage subsidies and pension plans.

Geographic mobility allowances are the most straightforward of the four in terms of both economic rationale and program design. However, the mobility allowances provided by Employment and Immigration Canada (EIC) face serious political obstacles relating to the regional dimension of the adjustment process, as described above. In point of fact, the Canada Manpower Mobility Program covers only part of the direct costs of relocation, perhaps the most serious deficiency being the failure to provide for losses incurred in the sale and purchase of housing. As such, it cannot provide much incentive for laid-off workers to move even short distances within Canada.

Labour market information services, including counselling, placement, and especially occupational forecasting services, are closely related to retraining and educational policies in terms of their impact on the adjustment process. The economic rationale for government intervention of this type is quite strong. Without adequate information on current job vacancies, job searches will be prolonged and private and social adjustment costs will increase. Without information on future areas of greater employment opportunity, workers' decisions to undertake vocational training or further their education in some field will prove to be less profitable, whether from the individual or societal point of view. Finally, if workers have insufficient access to training and educational facilities, by reason of their inability to secure financing to carry them through a retraining period, social and private benefits will also be foregone. All of these obstacles apply equally to opportunities for workers arising from trade liberalization, for example in industries facing new export opportunities, as well as to the normal operations of labour markets.

Both in the provision of training facilities and funding for on-the-job training and in the area of information services, Canadian federal and provincial governments have been active for many years. While provincial governments have at times expressed their desire for more control over the orientation of training programs toward particular industries and occupations, federal-provincial cooperation has for the most part been extensive and effective. The federal National Training Act of 1982 promises to focus training expenditures more effectively on the reduction of labour market imbalances, by coordinating training programs and facilities in light of forecasts of labour surpluses and shortages by industrial, occupational, and geographic areas. Recent innovations in forecasting techniques, such as the Canadian Occupational Projection System (COPS) also promise to provide workers with improved labour market information on which to base economically sound decisions on human capital development. Although problems do remain, for example with respect to the adequacy of living allowances for trainees with dependents, it is fair to say that government activities in the areas of information services and training operate positively to facilitate adjustment.

The establishment of portable pension plans has also been suggested as a way of facilitating labour adjustment. Legal requirements for "vesting" of pension plans, so that accumulated employer contributions are not forfeited when workers change jobs, would remove a serious limitation on the flexibility of the Canadian labour force. Proposals for pension reform, including the 1983 report of the Parliamentary Task Force, emphasize the need for legislation to correct the problem.

The effectiveness of portable wage subsidies (PWS) in facilitating adjustment is more uncertain. Under the PWS element of ILAP, eligible older laid-off workers were issued vouchers, tenable anywhere in Canada, entitling prospective new employers to a $2 per hour subsidy. The problem with this sort of scheme is that workers may simply find employment with other firms in the same declining industries as their previous employers or in other declining industries. In any event, utilization of the PWS program was negligible, with only 236 workers actually benefitting over the 1981-84 period. A primary reason for this low "take-up" was the generally high unemployment rate at the outset of the program, which obviously limits reemployment prospects with or without a wage subsidy.

In addition to the important role played by regular UI benefits in the adjustment process, UI funds have been available since 1977 for so-called "developmental uses", in effect providing income maintenance for workers involved in work-sharing agreements, job creation projects, and training courses. The recent report of the Macdonald Commission recommended that the UI system be further modified to make extended or enhanced UI benefits, under a Transitional Adjustment Assistance Program (TAAP), available on a conditional basis to workers willing to "undertake adaptive behaviour". (Royal Commission *Report* 1985, Vol. 2, p. 617) This would provide a strong incentive for workers to undertake retraining, change jobs with the aid of portable wage subsidies, or relocate geographically, and would also aid workers seeking early retirement from declining industries.

Objections to such uses of UI funds may be raised on the basis of their interference with the primary function of the UI system, which is of course to provide workers with insurance against the possibility of job loss. Valid though such concerns may be, the UI system has grown to the point where its effects on labour market operations and on the economy as a whole cannot be ignored. In the words of the Commissioners, although there should be a "primary emphasis on the insurance objective; the benefit and financing provisions of the UI system should also facilitate, rather than retard, labour-market adjustment". . . ." (Vol. 2, pp. 602-3).

In addition to labour market policies, federal and provincial governments have attempted to facilitate adjustment by directing assistance to firms. The instruments used have included production subsidies, capital grants, low-interest loans, loan insurance and guarantees, market development assistance, export credits and subsidies, direct R&D grants and funding for industrial research institutes, as well as a variety of tax incentives such as accelerated depreciation allowances. On the whole, the impact of such measures on the adjustment process is unlikely to be strongly positive. All too often, they amount to the use of tax revenues to make resources more competitive in their present uses. While this may be quite desirable for other reasons, it does little to facilitate adjustment to trade liberalization or any other source of adjustment pressure.

A useful purpose may be served, however, by industry assistance programs that are directly linked to increased import competition resulting from trade liberalization. Such programs accompanied the introduction of the Auto Pact (the 1965 Automotive Adjustment Assistance Program) and the Kennedy Round tariff cuts (the 1968 General Adjustment Assistance Program). Even though they were rarely used, they may have acted as a sort of psychological safety net for affected firms, preventing the development of unduly defensive management orientations. By offsetting what may be exaggerated perceptions of the threat of import competition in newly opened domestic markets, firm-level assistance may help import-competing firms to avoid delaying the investments or modernization that would ordinarily take place were it not for the increase in uncertainty created by trade liberalization. More recent industrial incentive programs, however, have been linked only loosely to the problems of adjustment to trade liberalization. The Enterprise Development Program of 1977 and its 1983 successor, the Industrial and Regional Development Program, may have been less effective as safety nets as a result.

One program of assistance to firms which has the potential to act as more than a safety net is the Sector Firms Program administered by the CIRB. It provides assistance to firms in the textiles, clothing and footwear or TCF industries in three stages, for comprehensive analysis of company operations, development of detailed, long-term restructuring plans, and implementation of those plans. Each of the latter two stages is conditional upon positive results from the preceding stage, so that out of almost 1,000 applications received by June 1985, only about one-quarter have led to the actual implementation of restructuring plans. The program is highly selective and very definitely oriented toward the larger firms in the eligible industries, though the formal criteria relate only to a firm's competitive viability. Applications proposing entry into the industries are rejected, as are those from firms with inadequate financial resources, management capability, or company commitment to undertake a major restructuring. In some instances, firms are discouraged from even applying for assistance.

The CIRB's activities are neither intended nor likely to phase out the TCF industries. What it may produce, however, are TCF industries in which the weakest segments (in terms of product lines and particular firms) are greatly reduced in size. While it is too early yet to evaluate its impact on the adjustment process, given the long-term nature of the assistance provided, the Sector Firms Program does have the potential to eventually bring about some reduction in the constituency for continued protection. It may therefore be advisable, following the scheduled March 1986 termination date for the program, to consider extending it or implementing similar measures based on the findings from a detailed evaluation of the CIRB's effectiveness.

Anticipatory Adjustment Policies

The final type of adjustment policy involves the anticipation of adjustment pressures, or the active reallocation of resources toward some sectors of the economy and away from others. In some ways, it is the most difficult to deal with, in part because of the substantial lack of experience in Canada with anticipatory policies. There are few examples involving such purposeful redirection of capital and labour. Those that do come to mind, such as the ill-fated mega-project strategy of 1980-81, have generally been driven internally rather than in response to external change.

The experience of other countries with anticipatory policies are often held up as examples of what Canada could achieve through anticipating the adjustment pressures stemming from changes in global trading patterns and practices. Japan's "administrative guidance" and France's "indicative planning" are touted in some circles as models that could be profitably applied in Canada. While there are no doubt important lessons to be learned from comparative policy analyses, it is unlikely that other countries' approaches to adjustment policy, anticipatory or otherwise, could serve as even a general blueprint for Canadian policy. Among other reasons, the nature of business-government relations, industrial relations systems and capital market structures and practices are frequently key preconditions for the success of foreign approaches. It is merely wishful thinking to call for changes in these fundamental underlying factors as part of an adjustment policy to accompany trade liberalization initiatives.

There does exist, however, a range of specific adjustment policy measures that can be used in an anticipatory fashion. The provision of labour market forecasting services described above is one example. Though more commonly used to improve the operation of labour markets and facilitate adjustment, forecasting methods could be used to simulate labour market conditions under different scenarios, including proposals for trade liberalization. The information generated could then form part of a forward-looking adjustment policy incorporating training and mobility allowances, portable wage subsidies, and other labour market measures. The result would be to induce the movement of workers into certain industries in accordance with expected patterns of adjustment pressures. Investment incentives and capacity reduction subsidies could serve similar purposes with respect to firms in the same industries.

Several very serious problems with such an approach can be envisaged. Many of these are essentially ideological and relate to the danger of entrusting resource allocation to centralized bureaucratic controls and thereby placing limits on or interfering with economic freedoms. In addition to these often deeply felt views, there is one quite pragmatic economic argument against anticipatory adjustment policies. (See Tumlir 1979) In the absence of government assistance for the withdrawal of resources from an industry, that industry would, all other things being equal, respond to adjustment pressures in several ways. Foremost among these responses would be product and process innovations, at least by the stronger firms in the industry, aimed at countering import competition to the extent possible. Wage bargaining strategies by the industry's labour force would also likely respond to the perceived danger to markets in the face of adverse shifts in comparative advantage. The use of anticipatory adjustment policies therefore entails foregoing the benefits to the economy of the innovations and the lessening of upward pressures on wages that would otherwise have occurred.

In a sense, there exists in virtually all economies some degree of responsiveness to adjustment pressures, which may be rendered redundant by the use of anticipatory adjustment policies. There is therefore a hidden cost to such policies over and above their potentially substantial budgetary costs. Moreover, encouraging the withdrawal of resources from declining industries sooner or at a faster rate than dictated by market forces amounts to maximizing rather than minimizing the number of job losses. Anticipatory policies may therefore also result in behaviour burdens on policies that facilitate adjustment and compensate for adjustment costs.

The idea of anticipatory adjustment policy as described here bears a certain resemblance to the industrial strategy proposals aired in Canada over the past two decades. The similarities are evident in the Science Council's long-standing advocacy of intervention in support of technology-intensive activities as well as in such less biased efforts as the 1984 Report of the Standing Senate Committee on National Finance on *Federal Government Support for Technological Advancement: An Overview.* The argument is generally cast in terms of the contribution of greater Canadian R&D capability to the adaptability of the Canadian economy to global competitive pressures.

However, as a Conference Board of Canada study has noted, a review of the interventionist approaches "reveals that relatively little attention has been paid to the adjustment question and that an explicit analysis of the adjustment phase is generally lacking". (Beckman 1983, p. 14-15) In short, before an industrial strategy could function as an anticipatory adjustment policy, it would have to address the consequences of government assistance to selected firms, industries and R&D activities for those parts of the economy *not* targeted for support. Given the political unpalatability of such "de-targeting", there seems to be little likelihood of effective anticipatory adjustment policies being implemented.

Adjustment Policies and International Realities

Many if not most of the policy recommendations above touch on Canada's international obligations. Adjustment assistance to industries, and to workers for that matter, is like any other subsidy in that it may become the focus of a dispute with a trading partner over unfair trade practices. Of principal relevance are the provisions of the GATT rules on subsidies and countervailing duties, including those contained in the 1979 Subsidies Code. Measures aimed at slowing the pace of adjustment have still more direct international implications in that they often fall under Article XIX of the GATT, which governs emergency safeguard actions. Other international obligations, such as the GATT Procurement Code and the OECD guidelines on officially supported export credits, may also come into play in the formulation of Canadian policy toward structural adjustment.

In particular, the negotiations on the safeguards issue in both bilateral and multilateral fora have dealt in some detail with adjustment questions, even in the early stages. Questions as to allowable duration and progressive relaxation (or "degressivity") of safeguard actions limiting imports are among the main agenda items. Obligations to report on the effectiveness of adjustment policies and/or processes in protected industries are also being discussed. Proposals that an exporting country's rights of retaliation and compensation under the GATT be waived in return for a commitment that the importing country will undertake effective adjustment policies or ensure adequate market-driven adjustment are being considered as well.

The fact that adjustment-related issues are likely to have some prominence on the agenda for international trade negotiations is further justification for a close examination of Canadian adjustment policies. The two types of policies that have proved most effective in the past, namely those aimed at facilitating adjustment and compensating those who lose out in the adjustment process, may be discussed at the bargaining table along with the more troublesome policies intended to slow adjustment. Moreover, all four types of adjustment policies, including anticipatory policies, operate in an interrelated fashion. In order to achieve the objectives of efficiency, equity and political efficacy, while at the same time maximizing Canadian bargaining advantages in international trade negotiations, a more comprehensive and coherent approach to the policy implications of structural adjustment is needed.

Adjustment and adjustment policies are closely bound up with Canada's comparative international economic performance and its obligations under international agreements. Both bilateral and multilateral trade negotiations will have consequences for adjustment in the Canadian economy and will impose constraints on the policy responses to adjustment pressures. Far from inhibiting support for a more liberal trade policy, however, the challenges posed by structural change should serve to encourage trade liberalization as an essential element of a forward-looking economic policy for Canada.

Chapter 7:

*Toward a Canada-United States Free Trade Agreement**

> A distinguished Canadian, while on a visit to the United States some twenty years ago, was asked to explain the difference between the policies of the Liberal and Conservative Parties of Canada. He replied that 'the Liberals do not want the tariff to go any higher and the Conservatives do not want it to go any lower'.
>
> L.D. Wilgress, in *Canada's Approach to Trade Negotiations*, 1963

This chapter examines the Canada-U.S. trade relationship and highlights the major issues in the negotiations on a new bilateral trade agreement that got under way in 1986. The main points are as follows:

- The degree of bilateral trade liberalization so far achieved, under bilateral agreements and GATT, is impressive; however, the process is by no means complete and the GATT rules are imperfect constraints on some policies restricting bilateral trade.
- Fairly broad support has emerged in Canada for the liberalization of cross-border trade, and the U.S. response has been positive.

---

* This chapter is drawn largely from a paper presented by Frank Stone at a meeting of the Canadian and U.S. Chambers of Commerce in Williamsburg, Virginia, March 17-19, 1986.

- A new comprehensive bilateral trade agreement would supplement rather than replace the GATT, which would continue to be the main trade agreement between the two countries.
- As has been the case under the GATT, a new bilateral agreement could offer major benefits to Canada through: the removal of tariffs on cross border trade (which would both provide access to the large U.S. market and instigate specialization and rationalization within Canadian industry); increased discipline over the use of countervailing duties, antidumping duties and other contingent protection measures; and improved rules governing non-tariff barriers such as preferential government procurement policies, health and safety standards and support programs in sectors such as fisheries and agriculture.
- U.S. negotiating objectives will likely emphasize new rules on foreign investment policies, trade in services, intellectual property rights, and clearer definitions of acceptable subsidies to exporting industries, in addition to the reduction or elimination of tariffs and non-tariff barriers.
- A new bilateral trade agreement should create effective joint institutional arrangements to help resolve disputes arising from the agreement, to conduct joint investigations of injury in countervailing duty, antidumping duty, and safeguard actions on cross-border trade, and to handle references from the two governments on other bilateral trade and economic matters.
- In proceeding with bilateral negotiations, the two countries should have careful regard for their obligations under GATT; any agreement reached should be consistent with GATT Article XXIV and the objective should be to strengthen the GATT system by contributing to global trade liberalization and the evolution of world trade law.
- To avoid damage to trade relationships with third countries, Canada and the United States might indicate at an early stage that it is not their intention to establish long-term tariff and trade preferences, that each stands ready to consult with third countries on problems that the agreement might create for them; and that during the forthcoming GATT negotiations, on the basis of balanced reciprocity, the two countries are prepared to exchange

with other GATT members on a most-favoured-nation basis any benefits exchanged bilaterally.

In Canada, the debate over free trade with the United States has a long and tangled history, which colours the present approach to the negotiation of a bilateral Canada-U.S. trade agreement. For a decade in the middle of the 19th century a "Reciprocity Treaty" existed between the United States and the British North American Provinces, providing for free trade in most raw materials and a few manufactured goods. This treaty was abrogated unilaterally by the United States after the Civil War, partly because of domestic protectionist pressures. Its termination encouraged the confederation of the provinces into present day Canada; the failure of further attempts to restore free cross-border trade prompted the adoption by Canada in the late 1870s of protectionist import policies, especially for its manufacturing sectors, under the so-called "National Policy". For 60 years protectionism in Canada ebbed and flowed largely in response to the ebb and flow of protectionism in the United States, and in the absence of any form of trade agreement between the two neighbours.

In the mid-1930s the reversal of U.S. protectionist trade policies by the Reciprocal Trade Agreements Act led quickly to the conclusion of the Canada-U.S. trade agreements of 1935 and 1938. These agreements launched a half-century of progressive cross-border trade liberalization which continued after the Second World War within the multilateral framework of the General Agreement on Tariffs and Trade (GATT). Since 1947 the GATT has represented the main trade agreement between the two countries, as well as with other GATT members, supplemented by remarkably few trade arrangements of a purely bilateral kind. One of these is the important Automotive Products Agreement concluded in 1965.

While the degree of liberalization achieved by the two countries in their bilateral trade is impressive, the process is by no means complete. Under successive rounds of GATT negotiations, the tariffs of the two countries on cross-border trade have been greatly reduced, although they remain high on both sides on certain products including textiles, clothing, footwear, many petrochemical products, and many consumer-type goods. Where tariffs remain, the average level is somewhat higher in Canada than the United States. The GATT has also provided a set of rules which constrain, somewhat imperfectly, protectionist trade policies in both countries. These GATT rules have a particular importance for Canada as the junior partner in the relationship, especially the rules governing the use by the United

States of countervailing and anti-dumping duties, safeguard import measures, and other forms of "contingent" protection. Both countries have a strong interest in reinforcing and enlarging the GATT as the central element in the world trade system, including the institutional features of the GATT for monitoring trade policy developments and for the resolution of trade disputes; and both countries are strongly promoting the launching of a new round of multilateral trade negotiations under the GATT.

These GATT negotiations, however, are likely to proceed slowly. Furthermore, they cannot be expected to deal effectively with the range of purely bilateral Canada-U.S. trade issues nor to provide a framework for the early liberalization of cross-border trade on a comprehensive basis—objectives which the governments of Canada and the United States have now set for themselves.

The Present Bilateral Trade Initiative

Over the past few years, fairly broad support has emerged in Canada for completing the liberalization of cross-border trade with the United States on a comprehensive basis, and the United States government has responded positively to proposals for such an initiative. Support in Canada for bilateral trade liberalization is based on a growing recognition that open and secure access to the large markets of its largest trading partner will provide new opportunities for Canada's economic growth, and that the dismantling of the remaining trade barriers on both sides will strengthen the efficiency and competitiveness of the Canadian economy. Economic studies in Canada have indicated that bilateral free trade would have substantial positive results in terms of the growth of domestic production and per capita income, and up-grading employment opportunities for Canadians, and that expected adjustment problems would be manageable if appropriate assistance policies are adopted.

Apprehensions about recent pressures in the United States for increased trade protection are giving additional support in Canada for a better and fairer set of rules to govern bilateral trade. There are particular concerns in Canada about what many regard as abuses of U.S. legislation and procedures governing that country's countervailing duty, anti-dumping and other so-called "trade remedy" systems; there is a widespread perception that these systems could and have been used to harass fair and competitive Canadian exporters for purely protectionist purposes. The continuing threat to Canadian producers posed by the operation of these systems, moreover, could have the effect of distorting decisions about investment or inducing companies to shift production across the border in order to avoid being caught or threatened by U.S. trade remedy actions in the future.

The present initiative for a new and more open trade relationship was launched by Prime Minister Mulroney and President Reagan at their meeting in Quebec City in March 1985. In September, the Prime Minister formally proposed to the President the negotiation of a new trade agreement, and in December the President formally notified Congress of his intention to proceed with the negotiations, as required by U.S. trade law. With the narrow defeat in April 1986 of a motion in the Senate Finance Committee to dissapprove of the negotiations, the Administration secured negotiating authority under the fast-track procedure. As noted elsewhere, the Canadian Government has appointed Mr. Simon Reisman to be the chief negotiator for Canada; Mr. Peter Murphy is leading the U.S. negotiating team. Active negotiations opened in May 1986 and both sides hope to conclude them and have the results approved within the period of the current mandates of the two governments, that is, by the fall of 1987 or the winter of 1988. An additional constraint might be imposed by the expiry of the U.S. Administration's current negotiating authority in January 1988; a renewal might prove difficult to obtain from Congress in a presidential election year.

Nature and Form of a Future Trade Agreement

A new bilateral agreement of the kind contemplated would be complementary to the GATT, and would not replace it as the basic trade agreement between the two countries. A bilateral agreement could thus call for the removal of tariffs and other barriers to cross-border trade well beyond the extent achieved by past GATT negotiations, or likely to be achieved under a new GATT round. Such an agreement could also put in place an additional set of rules to govern cross-border trade. This would involve obligations on both sides over and above those called for under GATT rules or under their other international undertakings. Also, the agreement could well create new joint institutional arrangements that would assist in the operation of the agreement and generally help the two countries manage their trade and economic relations more effectively than in the past. Canada would have a special interest in ensuring the stability and permanence of a new trade agreement, and in guarding against subsequent legislative or other measures on the U.S. side which could erode the benefits exchanged under the agreement.

Benefits to Canada from a New Trade Agreement

Canadian trade policy over the past half-century has been guided by the principle, which is embodied in the GATT but not always observed, that substantial economic and other benefits will result from the reduction of barriers to world trade and the maintenance of an orderly system of trade rules. Canadian trade policy has been directed, in particular, to gaining more open and secure access to markets in the United States in exchange for a reciprocal dismantling of Canadian barriers to imports. An important objective has always been to put in place rules to constrain the adoption of trade protective measures by the United States that could damage Canadian interests. In broad terms, the benefits to Canada from a new bilateral trade agreement would represent an extension of benefits pursued for many years by Canada both on a multilateral basis and directly with its largest trading partner. Moreover, the potential gains to Canada from a new trade agreement with the United States have increased in recent years, as exports have expanded as a proportion of Canada's GNP and as the United States has increased in importance as an export market and as a source of imports.

These benefits will of course depend on the nature and scope of the agreement. Canadian objectives in this regard have been publicly discussed in general terms, but have yet to be precisely defined. The analysis below is based on the assumption that the two sides will be successful in concluding an agreement that will be comprehensive in scope, both in terms of product coverage and in terms of its functional elements.

Economic Benefits

Empirical studies of the overall gains to the Canadian economy from various forms of trade liberalization between Canada and the United States lead with near unanimity to the conclusion that there would be significant economic benefits from bilateral free trade with the United States, and that these benefits would be broadly spread throughout the country. As noted in Chapter Two, Harris and Cox (1984) concluded that under a comprehensive bilateral free trade arrangement with the United States the aggregate economic gain could be in the range of 10 per cent of GNP, with substantial increases in real wages. The study assumes the mutual elimination of tariff and non-tariff barriers (including subsidies) in all industrial sectors.

Several empirical studies have also examined the short-term adjustment costs to the Canadian economy arising from various changes in trade policy, which give some indication of the nature and scale of these costs arising from a bilateral Canada-U.S. free trade arrangement. These studies indicate that the adjustment costs could be substantial for some firms and workers, but that the costs would be outweighed by the gains from bilateral trade liberalization. It may be hoped that a bilateral free trade arrangement would be accompanied by government programs of adjustment assistance for those adversely affected. (Chapter Six discusses the adjustment issue in detail.)

Removal of Tariffs

Canada is now one of the few industrialized countries that does not have tariff-free access to large export markets, such as western European countries enjoy under bilateral or other free trade arrangements. Gains to Canada from the removal of U.S. tariffs on cross-border trade would result from the exploitation of economies of scale and greater specialization of production by Canadian industries. The removal of Canadian tariffs, at the same time, would force a more efficient reallocation of resources both within and between sectors, and would put new pressures on Canadian firms to rationalize production and lower costs.

Further, economic theory has long contended that because Canada is the smaller country in the relationship, U.S. tariffs commonly represent costs which must be absorbed by Canadian exporters and eventually by Canadian labour, representing a transfer of income from Canada to the United States Treasury. By contrast, the Canadian tariff generally has the effect of allowing domestic producers to raise their price of import-competing products above U.S. prices by the amount of the tariff; the result is higher prices for both imports and the competing domestic products, and a transfer of income to protected industries from consumers and other industries. Thus the benefits to Canada from the removal of tariffs on cross-border trade would be two-fold: on the one hand, reduction of transfers of income to the United States Treasury with gains in real wages in Canada, and on the other, a reduction of consumer prices and costs of inputs to domestic industries.

It is sometimes argued that since such a large proportion of cross-border trade is duty-free or subject to relatively low duties, tariffs no longer represent a significant barrier to bilateral trade. This argument disregards the existence of certain tariffs which remain very high indeed, and which may prevent otherwise profitable trade from taking place at all. The removal of such tariffs could thus be expected to open entirely new export opportunities in the U.S. market for certain competitive Canadian producers, while providing Canadian consumers and many industries with new access to imported U.S. goods at competitive prices. Moreover, the complete removal of tariffs on cross-border trade would reduce the burden of customs administration and the corresponding costs to importers and exporters, notwithstanding the need for more elaborate systems for the certification of the origin of goods crossing the border.

It may be expected that tariff removal on both sides would be accomplished in stages, at least in certain sectors, which may not be the same on both sides. A good case can be made for allowing Canadian tariff cutting to proceed over a somewhat longer period, because adjustment problems in Canada are likely to be more difficult, and because Canadian tariff rates are generally higher than those originating in the United States.

"Trade Remedy" Measures

The U.S. anti-dumping, countervailing duty and "safeguard" import systems probably now represent for Canada the most important barriers to cross-border trade. The threat of the imposition of these import relief measures can lead to severe strains in bilateral relations and to costly efforts by governments – as well as by the exporters concerned – to head off their application. Major benefits could thus result if measures of this kind no longer threatened Canadian exports to the United States.

Canadian negotiators are certain to press strongly for arrangements which will, in one way or another, exempt cross-border trade from countervailing and anti-dumping duties and other "contingent" protection measures, although U.S. officials have warned of the difficulties of obtaining Congressional approval for blanket exemptions for Canada under U.S. trade remedy legislation. Under conditions of free cross-border trade, however, and in the context of other provisions in a bilateral trade agreement, a whole new context would be created for special bilateral arrangements to govern the use of such measures on goods traded across the border.

For one thing, the removal of tariffs on cross-border trade would in itself reduce opportunities for dumping, and the threat of anti-dumping duties on cross-border trade would be correspondingly reduced. Also, under a new bilateral trade arrangement, it may be possible to reach understandings on the use of permitted subsidy programs on either side, so as to limit the use of countervailing measures. There may be other possibilities for agreeing on definitions of dumping and subsidies, and on interpretations of domestic law in these areas, including interpretations of injury to domestic producers, which would help to reduce bilateral problems and conflicts.

It should be noted, in this regard, that there exists a bilateral understanding, signed in February 1984, on the use by either country of "safeguard" measures affecting exports from the other. It supplements the two countries' rights and obligations as set out in the GATT, by providing for advance consultations on the introduction of safeguard measures affecting cross-border trade and by clarifying each country's rights to compensation. While this understanding represents a potentially significant step toward a more open bilateral trade relationship, its actual effectiveness has been called into question due to the apparent lack of sufficient notification by the United States in certain cases, including the much-publicized shakes and shingles safeguards imposed in May 1986.

As discussed below, under the trade agreement new institutional arrangements could be put into place to help resolve problems arising from complaints about subsidized or dumped exports in cross-border trade, as well as complaints about other trade flows that create special problems for domestic producers in either country. Regardless of the way in which the difficult issues in this area are resolved, a new agreement would have limited appeal in Canada unless it offered significant benefits in terms of removing or substantially reducing the threat of countervailing duties, anti-dumping duties and other such measures against Canadian exports.

Other Non-Tariff Measures

Major benefits for Canada, and indeed for the United States as well, would result from provisions in the trade agreement which would enable producers in each country to obtain "national treatment" in competing for sales of goods and services to departments and agencies of federal, state and provincial governments. The volume of such purchases is very large, and is probably in the range of $75 billion (Cdn.) by Canadian federal, provincial and local governments, and in the range of $750 billion (Cdn.) by U.S. federal, state and local governments.

The two countries may be expected to enter into commitments at the federal level that go well beyond those in the 1979 GATT Code on Government Procurement, in terms of the government agencies involved, product coverage, and other elements. There would also need to be special arrangements for suppliers in the two countries under "buy America" type legislation and under legislation favouring special domestic groups such as small or minority-owned enterprises. In addition, new arrangements beyond those that now exist would appear to be required to enlarge opportunities for suppliers in the two countries to compete for the procurement of defence materials.

The new agreement would almost certainly also need to address the issue of equal treatment for suppliers in the two countries in competing for procurement by state, provincial and local governments. Because of constitutional differences, the approach to exchanging commitments on the part of these governments could differ, and such commitments might need to be put in place over time.

Other obstacles to cross-border trade can be presented by differing product, health and safety standards, which may be mandated by the federal and state/provincial governments or observed by industries on a voluntary basis. Because of the similarity of many Canadian and U.S. product, health and safety standards, it seems likely that differences in standards present relatively few barriers to bilateral trade. However, barriers of this kind do exist for certain products, and additional barriers could emerge as new standards are developed in the future.

Under the GATT code on standards the two countries are co-operating in the further development of international standards, with a view to reducing, on a global basis, trade barriers arising from differences in national standards. However, it would appear desirable to establish procedures under the new trade agreement for bilateral cooperation in the removal or prevention of trade barriers arising from differences in Canadian and U.S. product standards. For both countries, substantial benefits from trade liberalization could be foregone if export sales were to be blocked because of differences in standards.

There will doubtless be a need to ensure that benefits to Canada from bilateral trade liberalization are not reduced because of problems arising from U.S. customs procedures and practices. Provisions in the agreement will be needed to deal with on-going problems in this area, as well as with problems arising from government procurement and differences in product standards. The agreement might need to create effective new joint institutional arrangements which would be assigned a role in helping to resolve problems of this kind and in interpreting the relevant provisions of the agreement.

Agricultural and Fisheries Products

A great deal of two-way trade in agricultural and fisheries products already flows freely, subject only to whatever customs duties may apply. On the Canadian side, arrangements have been agreed upon in the past for the imposition of seasonal duties on a range of fresh fruits and vegetables during peak growing periods, and these could well be addressed in the new negotiations. On both sides, significant duties are imposed on many processed agricultural and fisheries products, which indicates that there are opportunities for trade liberalization in this area that could benefit producers and consumers in both countries.

It is widely believed that there would be special difficulties for both countries in liberalizing cross-border trade in certain important sectors (such as the dairy sector), which are covered by support systems that operate in different ways and under different conditions. These systems generally include as integral elements restrictions on imports which could be difficult to relax without changes in the support systems themselves. However, some economic analysis indicates that the impact of liberalization in protected agricultural sectors might not be very great, and that the main effects would be a reduction in farm asset values and consumer prices in both countries.

From a Canadian perspective, it would seem important that the negotiations should include consideration of various possibilities for liberalizing trade in these protected sectors, including possibilities for modifying domestic support systems in ways that would allow mutually beneficial trade to take place. In certain of these sectors, proposals for the modification of Canadian and U.S. support systems could also be pursued on a broader basis in the forthcoming GATT negotiations, with a view to inducing needed changes in agricultural support systems in Western Europe and elsewhere.

In the bilateral negotiations, Canada may be expected to seek the removal of U.S. restrictions on Canadian exports of a range of products containing sugar. These restrictions, which were recently intensified, deny substantial benefits to Canadian producers and exporters who had hitherto developed markets for their products in the United States.

Foreign Investment

It is generally anticipated that the United States will propose the inclusion in the agreement of provisions relating to foreign investment, and it might be expected that U.S. negotiations will be concerned with such matters as controls on new investment by parent firms, limitations on the activities of subsidiaries, and "performance" requirements of subsidiary enterprises. Exchanges of commitments in this area could also bring benefits for Canada not only in terms of attracting employment-creating

U.S. investment to Canada but also in terms of opening new opportunities for Canadian investment across the border and safeguarding the interests of Canadian investors in the United States.

Trade in Services

It is generally expected that the United States will also seek to include new rules in the bilateral agreement, as well as on a broader basis in the GATT framework, to govern trade in the services sector. Agreement might be reached on a set of general rules, on the basis of which more detailed and specific rules in particular service sectors could be adopted. Neither U.S. nor Canadian interests and objectives in the adoption of new rules in these sectors appear to have been clearly identified, although the long-standing border broadcasters dispute, involving the non-deductibility for tax purposes of advertising expenses incurred by Canadian firms with U.S. television and radio stations, is one specific issue raised by the United States in this connection. Nonetheless, it might be expected that there would be significant benefits for Canada as well as the United States, at least in certain sectors, from provisions in a bilateral agreement which would contribute additional predictability and transparency to government policies with respect to regulatory systems affecting cross-border trade in services.

Intellectual Property

Like trade in services, the protection of intellectual property rights is widely seen, especially in the United States, as one of the "new" trade issues which must be dealt with if trade liberalization is to be promoted globally. In the bilateral context, the specific issue of compulsory licensing of pharmaceutical patents in Canada is a major U.S. concern. More importantly, however, a Canada-U.S. trade agreement improving the protection of intellectual property rights could provide impetus and serve as a model for multilateral trade negotiation in this area, which would address serious U.S. grievances over counterfeiting and pirating (e.g. in computer software and hardware).

Institutional Arrangements: A Joint Trade Commission

There should be special Canadian interest in the creation by the agreement of new joint institutional arrangements to help administer and interpret the agreement, to help resolve problems and disputes arising from its operation, and generally to provide additional assurances that the two countries will adhere to the obligations they have assumed under it. As the junior partner in the relationship, there are substantial advantages for Canada in the creation of an *independent* body whose advice and assistance could help offset the imbalance in the economies of the two countries.

The agreement might create two kinds of joint institutional arrangements. One would consist of representatives of the two governments and would be designed to facilitate consultations and negotiations regarding the implementation of the agreement, the interpretation of its provisions, and ways of improving it in response to new circumstances. The other would be a Joint Trade Commission – a permanent, independent body modelled on the long-established International Joint Commission (IJC) – designed to investigate bilateral trade problems and issues, to provide objective advice to the parties on how to deal with them, to help resolve particular trade disputes and to play a key role in the operation of "trade remedy" systems as these affect bilateral trade.

The proposed Joint Trade Commission would function primarily as an investigative and advisory body, with an additional mandate to help resolve bilateral trade disputes, but with no supra-national or regulatory functions except, as suggested below, those that may be assigned to it under the future agreement in connection with the operation of the "trade remedy" systems of the two countries.

Its main tasks would be assigned to it under "references" emanating from the two federal governments jointly, although provision might also be made in the agreement for references to be sent to the Commission by a single party in exceptional circumstances. The agreement might indicate the kinds of issues that the Commission would be asked to investigate. These issues could be confined to matters covered by the provisions of the agreement; preferably, they would include a broader range of issues in trade and related areas, so as to enable the Commission to investigate new issues outside the agreement as they emerge. In response to a request by the two governments, the Commission would organize and carry out a process of collection of data, verification of facts and impartial analysis, and then submit its conclusions and recommendations to the two governments.

The Joint Trade Commission might also be given one or more "standing references" by the two governments. It could be assigned continuing responsibility for monitoring and reporting on developments in trade legislation, policies and practices in the two countries, changes in the pattern of bilateral trade, and related developments in production and investment.

Structure of Commission

Following precedents established by the 1909 Boundary Waters Treaty and the International Joint Commission created by that treaty, the proposed Joint Trade Commission might be composed of six Commissioners, three appointed by each federal government on the basis of their qualifications to deal with trade and related issues, including both the economic and the legal aspects of these issues. The Commission could be headed by Canadian and U.S. co-chairman and maintain separate offices in the two capitals.

The co-chairman, following the IJC precedent, would need to be authorized by the agreement to appoint a small permanent staff. The main resources for conducting the Commission's work, however, and again following the IJC precedent, would be provided by a standing Joint Advisory Board.

The members of such a standing Joint Advisory Board would consist of specialists appointed by the Commissioners and would be drawn from departments of the two federal governments, from provincial and state governments and from the private sectors in the two countries. The Board need not be large in number – say, 18 members in total – but its membership should be balanced on the two sides and should be representative of the various functional, sectoral and geographic interests involved in the Canada-U.S. trade relationship. The Joint Advisory Board would be assigned responsibility for investigating and analysing particular bilateral issues as these are referred to the Commission by the governments, and would advise the Commission on how these issues should be resolved, as well as on recommendations which it might make to the two sides.

If the Commission and its Advisory Board are to perform an effective and credible function of investigating and advising on bilateral issues, it seems important that they should operate as collegial bodies, and not along national lines. The Commission should not become another body for bargaining and negotiation, but rather for the tendering of impartial, objective advice on issues in the bilateral trade relationship.

Dispute Resolution

The trade agreement should establish, within the framework of the Commission, procedures analagous to those in the GATT involving the establishment as the need may arise of Joint Dispute Panels composed of specialists (perhaps three to five in number, appointed by the Joint Trade Commission in consultation with the two governments) to investigate and make recommendations regarding the resolution of particular disputes. As has been the experience in the GATT, the successful operation of such procedures would of course involve the willingness of the two sides not only to make use of such panels and to cooperate in the selection of panel specialists, but also to respect the findings and recommendations of the Joint Dispute Panels. It would seem important to have such dispute panels operate within the framework of the proposed Joint Trade Commission, so as to reinforce both the impartiality of their operations and the authority of their recommendations.

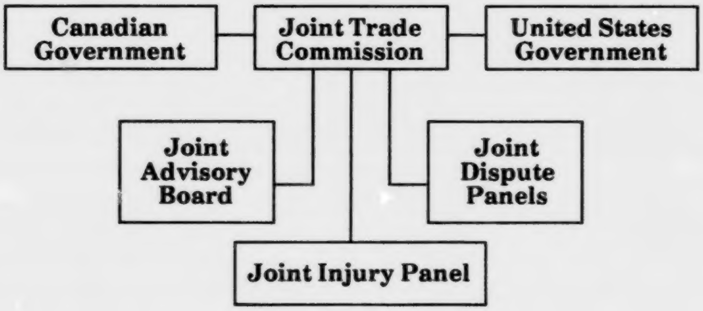
It would not seem necessary for the two governments to attempt to establish under the prospective trade agreement a process of binding arbitration of trade disputes; this would raise difficult constitutional and legal issues in both countries, including difficulties on the Canadian side pertaining to federal-provincial jurisdiction.

Trade Remedy Systems

The new Canada-U.S. trade agreement could contain provisions that would require in all cases a *joint investigation* of allegations of unfair subsidization of exports and of dumping of exports, as well as a *joint determination of injury* as a condition for imposing anti-dumping, countervailing duties or safeguard measures on exports of goods or services from one country to the other. This could involve the establishment of a joint panel drawn from the U.S. International Trade Commission and the Canadian Import Tribunal to conduct public hearings and carry out its own analysis of whether or not exports from one country involve subsidization or dumping and are causing or threatening injury to producers in the other country. Positive determinations of injury by the Joint Injury Panel in regard to dumping and countervail cases might even be "binding", leading automatically to the imposition of such duties on a definitive basis; on the other hand, positive determinations of injury in regard to safeguard cases could be "advisory" and could leave to the government concerned, as now is the case, the final decision on whether to impose safeguard measures.

The following chart shows the structure of the Joint Trade Commission and its sub-bodies, as proposed above.

STRUCTURE OF
JOINT TRADE COMMISSION



Relationship with Multilateral Trade System

A bilateral Canada-U.S. agreement that is successful in liberalizing cross-border trade and in extending and elaborating an improved set of rules governing this trade would set an example that could hardly fail to influence the course of the forthcoming multilateral negotiations under GATT. The removal of tariffs and other advantages exchanged bilaterally, moreover, could be expected to increase the negotiating strength of the two countries in their efforts to improve the GATT system. A successful outcome of the GATT negotiations would, in turn, bring substantial benefits to both Canada and the United States.

At the same time it is to be hoped that the two countries, in proceeding with their bilateral negotiations, will have careful regard for the letter and spirit of their obligations under GATT, so that the outcome will be to strengthen and not weaken the multilateral system. Article XXIV of the GATT permits Canada and the United States to conclude a bilateral trade agreement of the kind under consideration, provided that, among other things, such an agreement: calls for the removal of tariff and trade barriers on a substantial proportion of cross-border trade; requires full implementation within a reasonable period of time; and does not raise new tariff and other barriers to the exports of third countries. The two countries are thus obligated by these GATT rules to design a bilateral agreement that is comprehensive in scope and not simply an exchange of preferential treatment in a few sectors.

Despite the latitude provided by GATT Article XXIV for a free trade agreement between Canada and the United States, legitimate concerns have emerged in the two countries – and in other countries as well – that such an agreement could, in fact, result in a weakening of the GATT system and cause damage to third-country relationships. To allay such apprehensions, the two governments might clarify, whether jointly or separately, the following points at some early stage in their negotiations: that it is not their intention to establish permanent or long-term tariff or trade preferences between the two countries; that each stands ready to consult with third countries on trade problems for them which may be created by the agreement; and that during the forthcoming round of GATT negotiations, on the basis of balanced reciprocity, both countries are prepared to exchange with other GATT members on an most-favoured-nation basis any benefits exchanged bilaterally under the proposed agreement.

Further, during the GATT negotiations and on the basis of the arrangements they will have concluded between themselves, Canada and the United States could join in calling for a general review of the provisions of Article XXIV, with a view to correcting and preventing abuses by other countries in the creation and operation of free trade areas, customs unions and preferential trading arrangements.

Chapter 8:

Summary and Conclusions

> It is depressing to think of all the effort wasted over generations, and the income foregone, because of the belief that an economy gains by protecting its industries.
>
> Jan Tumlir, Director of Research,
> GATT Secretariat, 1982

It is difficult to overstate the importance of international trade to the relatively small and open Canadian economy. Both as regards the exposure of Canadian industries to competition in domestic and foreign markets and the benefits to Canadian firms of access to the international market-place, trade has a definite influence on economic growth, efficiency and productivity in Canada. The maintenance of an open international trade system providing a stable and predictable environment in which Canadian firms can operate with confidence is crucial to Canadian economic interests.

Chapter Two reviewed the standard framework used by economists to analyze the consequences of trade protection. It examined the costs and benefits of a tariff, including the revenues generated for government, the redistribution of economic welfare from consumers to producers, and the efficiency losses imposed on the economy as a whole. The economic consequences of a wide variety of non-tariff barriers to trade were also discussed and compared to those of a tariff. Import quotas, for example, impose costs over and above those of a tariff in cases where the domestic market is expanding. Quotas also have even more regressive effects than tariffs, since they encourage foreign producers to abandon the lower-priced product lines of such importance to low-income consumers. Selective bilateral import restraint schemes, where the governments of exporting countries allocate quota rights to the domestic market, are still more costly since the tariff revenues otherwise accruing to the domestic government are captured abroad. Bilateral restraints may also result in trade diversion away from the most efficient potential foreign supplies.

Discriminatory government procurement policies are also used with a view to protecting domestic industries. On the whole, they are relatively ineffective in this role, and may lead to inefficient domestic production, cost burdens for the economy as a whole and either higher government budget deficits or increased taxes. Domestic content regulations, such as those suggested for the Canadian automobile industry, have many of the same consequences as import quotas, and would be particularly inappropriate for Canada given its dependence on imports from and exports to the United States. The rising legal and other costs incurred by contingency protection proceedings, including countervail, anti-dumping, and safeguard cases, represent another barrier to trade. Particularly in the United States, the operation of contingency protection systems can contribute to uncertainty for exporters.

Domestic production subsidies may also be used to support industries facing import competition. While they are superior to tariffs or quotas in terms of the costs to consumers and to the economy as a whole, subsidies can result in similar misallocations of resources, particularly if they are provided on a selective basis to specific companies or industries. Furthermore, subsidies entail a cost to the government that must be financed somehow, and they are often very difficult to discontinue, as firms and regions become dependent on them. Export subsidies are also commonly used, in a variety of forms, to support domestic industries in world markets. Not only are they a frequent source of serious international friction, but export subsidies also impose costs on the treasury and on domestic consumers, who must pay the higher unsubsidized prices of companies facing increasing costs.

The presence of economies of scale, market power, and product differentiation in many industries has led numerous economists, particularly in Canada, to re-examine the traditional approach to the analysis of trade. Empirical studies incorporating these deviations from the perfect competition model suggest that the potential benefits for Canada from trade liberalization are dramatically greater than was previously believed. By contrast, studies estimating the costs and benefits of particular trade barriers used in Canada and in other countries invariably show substantial costs to consumers, relatively small benefits to producers, and overall losses to the economy of the protecting country.

Having reviewed the theoretical arguments and empirical evidence against trade protection, the case for protection was presented in Chapter Three. Many of the pressures for protection in Canada and in other countries stem from a fear of change and a desire for stability in a changing global economy. The specific arguments advanced by advocates of protection are often merely complex, elaborate justifications for the straightforward pursuit of self-interest by those who benefit from protection at the expense of others and at cost to the economy as a whole.

One of the most frequently heard arguments for protection is that it is essential to preserve certain industries for national security reasons. In spite of the fact that the list of "essential" industries often grows to absurd lengths, policy instruments such as subsidies or discriminatory government procurement are preferable to overt protection in the form of quotas or tariffs. Another common argument is that protection is necessary to preserve national sovereignty. This ignores the role that trade liberalization can play in strengthening the domestic economy and in indirectly contributing to the social, cultural and political progress and development that is at the heart of concern over national sovereignty. Moreover, the conclusion of trade agreements, whether bilateral or multilateral, is itself an exercise of national sovereignty.

Some economists have argued that market failures of one sort or another justify tariffs or quotas or other forms of trade protection. Once again, however, there are always more desirable policy instruments available. A more common argument in favour of protection involves the sheltering of "infant industries" until such time as they grow sufficiently to compete in world markets. Global or domestic market distortions, such as imperfectly competitive markets or economies of scale, are alleged to prevent some countries from exploiting the comparative advantage inherent in some of their industries. While there is some validity to these arguments for large economies, such as those in the United States or Japan, the small size of the Canadian market makes successful infant industry protection less likely. Moreover, the practical difficulties of identifying potentially internationally competitive industries are usually quite daunting.

Numerous other arguments have been used in support of protectionist measures, most of them variants on those listed above. Core industries, high-tech or R&D-intensive industries, engineered comparative advantage, the need for breathing space, income redistribution, maintenance of employment levels, the prevention of exploitation of cheap labour in the Third World, the fact that other countries do it—these all have been cited at one time or another in Canada and abroad as providing justification for opposing trade liberalization and for imposing protectionist measures. None has sufficient weight to swing the balance of economic interests in favour of trade protection.

Canadian trade policies have been formulated to a large extent in recognition of the country's dependence on international trade. Chapter Four described how changes in the international trade environment, including changes in world patterns of trade and production, in the rules of the trade system, and in the trade policies of Canada's main trading partners, have been among the most important influences. The characteristics of the Canadian economy, and the nature of Canada's trade and economic objectives, have provided the domestic context in which trade policy has responded to external developments.

To date, the GATT has been Canada's most important trade agreement with its trading partners, including the United States, both in terms of opportunities for Canadian exports and constraints on Canadian import policies. In recent years, however, many countries, including Canada, have stretched or circumvented the rules of the GATT in order to protect domestic industries from import competition. This enlargement of protectionism within the trade system has been part of a trend in Western countries toward increasing involvement of government in the economy since the late 1960s. The most serious derogations from GATT rules in defence of domestic interests have taken the form of discriminatory bilateral arrangements, including "grey-area measures" such as VERs on Japanese automobiles and the "managed trade" enshrined in the MFA. While the GATT rules and disciplines continue to encourage further liberalization of world trade and to exert real constraints on the use of protectionist measures, the multilateral trade system has been under increasing strain in recent years.

Although it would be an exaggeration to suggest that the system is on the verge of collapse, the launching of a new round of GATT negotiations would not only offer the prospect of further trade liberalization in new areas such as services but would also ensure that past progress in reducing tariffs and establishing rules on non-tariff barriers is not reversed.

The possibility of such a backslide into greater protectionism is all the more serious since the current pressures for protection reflect not merely cyclical economic distress or exchange-rate fluctuations but also the external shock and the increased pace of structural change that have characterized the global economy over the past 15 years. The Canadian government's support for a new multilateral round as well as for bilateral trade talks with the United States is therefore an especially important counter to protectionist pressures, and marks a positive step toward a more liberal Canadian import policy in the future.

Chapter Five reviewed the legal and institutional basis of Canadian import policy. Comprised of a complex system of legislation and government departments and agencies with jurisdiction over specific areas, the maze of instruments and responsibilities in the area of import policy has evolved over time to the point where it is impenetrable to all but specialists. The customs tariff, perhaps the most readily comprehensible instrument of import policy, has become less important as the tariff cuts negotiated in successive GATT rounds have been implemented. On numerous imported products, however, ranging from textiles, clothing and footwear to cutlery and tableware, Canadian import duties remain as high as 25 per cent.

Incidental protection from import competition is also afforded to Canadian producers by the administration and enforcement of the customs tariff in such areas as labelling requirements and product standards. Two areas in which Canadian import policy has been greatly simplified are valuation for duty and tariff classification. While the changes in Canadian procedures will not necessarily reduce protection, previous elements of ministerial discretion will be much reduced by Canadian adherence to the GATT valuation code and the international harmonized system of tariff classification.

Like other countries, Canada had tended increasingly to use non-tariff instruments to protect domestic industries, particularly since the mid-1970s. In addition to the more or less permanent quantitative restrictions and prohibitions on imports of some agricultural products, Canada has put in place ostensibly temporary measures designed to counter subsidized and dumped imports and to provide relief from unusually severe import competition. The latter type of measures, known as safeguards, include the restrictions on textiles and clothing and on footwear that have been the subject of seemingly unending government inquiries over the past 10 years. The 1984 Special Import Measures Act (SIMA) governing Canada's use of countervail, anti-dumping, and safeguard measures contains a mixture of liberal and more restrictive elements; the greater accessibility of the countervailing duty provisions is among the potentially more restrictive elements. The daunting complexity of the Canadian import policy system could be greatly reduced, and the system made fairer, more rational and more comprehensible, by the prospective amalgamation of the Tariff Board, the Canadian Import Tribunal and the Textile and Clothing Board.

The evidence and arguments reviewed in this book all point clearly in the direction of an overhaul of the import policy system and a concerted movement toward trade liberalization, through both GATT and bilateral negotiating channels, as a necessary part of a forward-looking Canadian trade policy. Chapter Six argues that, in the final analysis, the benefits of trade liberalization depend on the capacity of the economy to adapt to a changed competitive environment, created by the removal or reduction of Canadian and foreign restrictions on imports. Based on available evidence and past experience, structural adjustment to trade liberalization would constitute only an incremental addition to the constant adjustment pressures stemming from technological change, the emergence of new suppliers in global markets, and a host of other factors. Nevertheless, the concentration of interests benefiting from protection, and of the adjustment costs that would result from liberalization, make this incremental addition an important policy issue. Moreover, quite aside from the social and private costs of adjustment, the benefits of trade liberalization will be much more easily and extensively realized if the economy is more capable of reallocating capital and labour to new uses.

Some resistance to adjustment is inherent in the Canadian economy. Rigidities result from both government policy and autonomous social, political, and economic developments. In spite of these rigidities, a wide variety of adjustment responses have been evident in the Canadian economy over the past 15 years. Workers have changed jobs, occupations, and industries and have made wage concessions. Firms have engaged in strategies ranging from joint ventures to just-in-time inventory management in response to adjustment pressures. In comparison to other countries, Canada has exhibited a capacity for adjustment that is at least as great as many others, including the United States, though slower than that of Germany, Japan or Sweden. One aspect of the process of adjustment to trade liberalization which is likely to be particularly onerous for Canada, however, is the uneven distribution among the regions of Canada of especially trade-sensitive industries, communities and firms.

The role of government in structural adjustment in Canada has to date not been a coherent or comprehensive one. The debate on adjustment has suffered from an unfortunate overlap and confusion with the longstanding debate over industrial strategy. The wide range of policy instruments that can influence adjustment tends to further complicate the narrower issue of adjustment to trade liberalization. It is important to keep in mind that it is not the desirability of government intervention itself that is in question, given that intervention in the form of trade protection is already in place. The task is rather to identify the most appropriate government policies to accompany trade liberalization and to enhance economic efficiency in general.

Most analyses of structural adjustment and adjustment policy focus on distributional equity, economic efficiency and political efficacy. While these three concepts may indeed constitute the ideal and ultimate objectives of economic policy in the area of trade and adjustment, they bear only a loose relationship to the actual options facing policy-makers. The options for adjustment policy fall into four categories: slowing the pace of adjustment, compensating the losers in the adjustment process, facilitating adjustment, and anticipating adjustment pressures.

Slowing adjustment is the least desirable of the four broad options. The protectionist measures used for this purpose impose costs on the economy as a whole and often have adverse effects on the adjustment process, increasing employment dislocation or attracting firms into uncompetitive industries. They also seem to have been relatively ineffective at forestalling adjustment. It is therefore also a poor method of compensating those adversely affected in the adjustment process.

Compensatory adjustment policies have a much more positive role to play. The UI program and the smaller, more narrowly focused programs are quite effective in providing transitional income support to displaced workers. Specifically, trade-related programs serve the additional function of a psychological safety net, helping to secure support for trade liberalization initiatives (or at least helping to reduce resistance) among potentially vocal groups otherwise opposed to the removal of protection. It is, however, crucial to avoid wasteful over-compensation of displaced workers so as not to interfere with the group of workers at the margin of the labour force for whom incentives to adjust are sufficient without any assistance from government.

Policies aimed at facilitating adjustment have a positive role to play in the reallocation of capital and labour in response to trade liberalization. The range of labour market policies available to facilitate adjustment includes: counselling, placement and information services; geographic mobility allowances; portable wage subsidies and pension plans; and retraining programs. Many of these have been used with significant success by federal and provincial governments in Canada, in particular with labour market forecasting and on-the-job and institutional training programs. In each of these areas, of course, there is room for improvement, especially with respect to geographic mobility assistance, portable wage subsidies and portability of pension plans. It is important to recognize that, even in the absence of trade liberalization, unhindered adjustment to structural change is a necessary condition for any economy to reach its maximum growth potential.

As regards adjustment assistance provided to firms as opposed to workers, there are strong arguments in support of the position that the operations of capital markets are sufficient to facilitate adjustment without government intervention. Unlike labour markets, which are characterized by certain inherent imperfections readily dealt with by policy measures such as training subsidies, capital markets on the whole operate relatively efficiently to ensure that higher-risk activities earn higher returns. Mobility of capital across industries in response to changes in the pattern of economic opportunities is generally greater for most classes of assets than is the case for labour. Nevertheless, limited programs of assistance to firms may help to counteract politically important objections to trade liberalization and may ultimately serve to forestall unwarranted defensive reactions by firms that have overestimated the potentially negative impact of increased import competition.

Finally, as regards the use of anticipatory adjustment policies, these involve the formidable problems of predicting and reacting in advance to future pressures for structural adjustment. There are also hidden costs to anticipatory adjustment policies. These relate to the benefits of the technological innovations and changes in management practices, and the lessening of upward pressures of wages, which would occur in the absence of measures that draw resources out of declining industries. Wage subsidies to workers permanently leaving an industry and capacity reduction incentives would forego these benefits. Moreover, policy proposals that claim to be anticipatory, for example those related to Canada's R&D capabilities, are generally focussed on the up-side of the adjustment process and fail to deal adequately (if at all) with declining industries. For these reasons, and because of the political difficulty of labeling some sectors as winners and others as losers, anticipatory adjustment policies are generally not desirable.

Adjustment-related issues are likely to have some prominence on the agenda for international trade negotiations, especially in the areas of safeguards and subsidies. Policies aimed at facilitating adjustment and compensating those who lose out in the adjustment process may be discussed at the bargaining table along with the more troublesome policies intended to slow adjustment. In order to achieve the objectives of efficiency, equity and political efficacy, while maximizing Canadian bargaining advantages in international trade negotiations, a more comprehensive and coherent approach to the policy implications of structural adjustment is needed.

Chapter Seven dealt with the trade relationship between Canada and the United States. A review of the historical background and the developments during 1985-86 gives cause for optimism that a new bilateral trade agreement will be concluded at an early date. The nature and form of a future agreement will likely be such that it complements rather than replaces the GATT as the main trade agreement between the two countries. Provisions governing the removal of tariffs, the use of trade remedy measures, and non-tariff barriers would be of significant benefit to Canada. In areas such as foreign investment policies and trade in services, which are among the U.S. negotiating objectives, a new trade agreement may also be beneficial to Canada as well as the United States. There should be special Canadian interest in the creation of new joint institutional arrangements to help interpret the agreement and to help resolve problems and disputes arising both from its operation and in the trade relationship generally. A Joint Trade Commission might also be charged with responsibilities for joint investigations of dumping and subsidization and determinations of injury.

The economic benefits of trade liberalization, the intricacies of international trade relations, the use of protectionist policies, and the tangled relationship between trade, structural adjustment and government intervention—all of these factors point toward the importance for Canada of progress in international economic cooperation and policy coordination. They also indicate the unprecedented degree of complexity and, in all likelihood, difficulty of future GATT negotiations or bilateral Canada-U.S. trade talks. Active support for both, however long they may take, is therefore all the more important to the pursuit of Canadian economic interests.

Appendices

Appendix I: GATT Membership List (July 1985)

Contracting Parties to the GATT (92)

Argentina
Australia
Austria
Bangladesh
Barbados
Belgium
Belize
Benin
Brazil
Burkina Faso
Burma
Burundi
Cameroon
Canada
Central African Republic
Chad
Chile
Colombia
Congo
Cuba
Cyprus
Czechoslovakia
Denmark
Dominican Republic
Egypt
Finland
France
Gabon
Gambia
Germany, Fed. Rep.
Ghana
Greece
Guyana
Haiti
Hong Kong
Hungary
Iceland
India
Indonesia
Ireland
Israel
Italy
Ivory Coast
Jamaica

Japan
Kenya
Korea, Rep.
Kuwait
Luxembourg
Madagascar
Malawi
Malaysia
Maldives
Malta
Mauritania
Mauritius
Mexico
Netherlands
New Zealand
Nicaragua
Niger
Nigeria
Norway
Pakistan
Peru
Philippines
Poland
Portugal
Romania
Rwanda
Senegal
Sierra Leone
Singapore
South Africa
Spain
Sri Lanka
Surinam
Sweden
Switzerland
Tanzania
Thailand
Togo
Trinidad and Tobago
Turkey
Uganda
United Kingdom
United States of America
Uruguay
Yugoslavia
Zaire
Zambia
Zimbabwe

Acceded provisionally (1) Tunisia

Countries to whose territories the GATT has been applied and which now, as independent states, maintain a de facto application of the GATT pending final decisions as to their future commercial policy (31)

Algeria
Angola
Antigua and Barbuda
Bahamas
Bahrain
Botswana
Brunei Darussalam
Cape Verde
Dominica
Equatorial Guinea
Fiji
Grenada
Guinea-Bissau
Kampuchea
Kiribati
Lesotho
Mali
Mozambique
Papua New Guinea
Qatar
St-Christopher and Nevis
St-Lucia
St-Vincent
Sao Tomé and Principe
Seychelles
Solomon Islands
Swaziland
Tonga
Tuvalu
United Arab Emirates
Yemen, Democratic

Appendix II: Selected Articles of the Text of the General Agreement on Tariffs and Trade

Article VI

Anti-dumping and Countervailing Duties

1. The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another
   (a) is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,
   (b) in the absence of such domestic price, is less than either
      (i) the highest comparable price for the like product for export to any third country in the ordinary course of trade, or
      (ii) the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

   Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.
2. In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product. For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1.
3. No countervailing duty shall be levied on any product of the territory of any contracting party imported into the territory of another contracting party in excess of an amount equal to the estimated bounty or subsidy determined to have been granted, directly or indirectly, on the manufacture, production or export of such product in the

country of origin or exportation, including any special subsidy to the transportation of a particular product. The term "countervailing duty" shall be understood to mean a special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly or indirectly, upon the manufacture, production or export of any merchandise.

4. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes.

5. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to both anti-dumping and countervailing duties to compensate for the same situation of dumping or export subsidization.

6. (a) No contracting party shall levy any anti-dumping or countervailing duty on the importation of any product of the territory of another contracting party unless it determines that the effect of the dumping or subsidization, as the case may be, is such as to cause or threaten material injury to an established domestic industry, or is such as to retard materially the establishment of a domestic industry.

   (b) The Contracting Parties may waive the requirement of sub-paragraph (a) of this paragraph so as to permit a contracting party to levy an anti-dumping or countervailing duty on the importation of any product for the purpose of offsetting dumping or subsidization which causes or threatens material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party. The Contracting Parties shall waive the requirements of sub-paragraph (a) of this paragraph, so as to permit the levying of a countervailing duty, in cases in which they find that a subsidy is causing or threatening material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party.

   (c) In exceptional circumstances, however, where delay might cause damage which would be difficult to repair, a contracting party may levy a countervailing duty for the purpose referred to in sub-paragraph (b) of this paragraph without the prior approval of the Contracting Parties; Provided that such action shall be reported immediately to the Contracting Parties and that the countervailing duty shall be withdrawn promptly if the Contracting Parties disapprove.

7. A system for the stabilization of the domestic price or of the return to domestic producers of a primary commodity, independently of the movements of export prices, which results at times in the sale of the commodity for export at a price lower than the comparable price charged for the like commodity to buyers in the domestic market, shall be presumed not to result in material injury within the meaning of paragraph 6 if it is determined by consultation among the contracting parties substantially interested in the commodity concerned that:
   (a) the system has also resulted in the sale of the commodity for export at a price higher than the comparable price charged for the like commodity to buyers in the domestic market, and
   (b) the system is so operated, either because of the effective regulation of production, or otherwise, as not to stimulate exports unduly or otherwise seriously prejudice the interests of other contracting parties.

Article VII

Valuation for Customs Purposes

1. The contracting parties recognize the validity of the general principles of valuation set forth in the following paragraphs of this Article, and they undertake to give effect to such principles, in respect of all products subject to duties or other charges or restrictions on importation and exportation based upon or regulated in any manner by value. Moreover, they shall, upon a request by another contracting party review the operation of any of their laws or regulations relating to value for customs purposes in the light of these principles. The Contracting Parties may request from contracting parties reports on steps taken by them in pursuance of the provision of this Article.
2. (a) The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value

of merchandise of national origin or on arbitrary or fictitious values.

(b) "Actual value" should be the price at which, at a time and place determined by the legislation of the country of importation, such or like merchandise is sold or offered for sale in the ordinary course of trade under fully competitive conditions. To the extent to which the price of such or like merchandise is governed by the quantity in a particular transaction, the price to be considered should uniformly be related to either (i) comparable quantities, or (ii) quantities not less favourable to importers than those in which the greater volume of the merchandise is sold in the trade between the countries of exportation and importation.

(c) When the actual value is not ascertainable in accordance with sub-paragraph (b) of this paragraph, the value for customs purposes should be based on the nearest ascertainable equivalent of such value.

3. The value for customs purposes of any imported product should not include the amount of any internal tax, applicable within the country of origin or export, from which the imported product has been exempted or has been or will be relieved by means of refund.

4. (a) Except as otherwise provided for in this paragraph, where it is necessary for the purposes of paragraph 2 of this Article for a contracting party to convert into its own currency a price expressed in the currency of another country, the conversion rate of exchange to be used shall be based, for each currency involved, on the par value as established pursuant to the Articles of Agreement of the International Monetary Fund or on the rate of exchange recognized by the Fund, or on the par value established in accordance with a special exchange agreement entered into pursuant to Article XV of this Agreement.

(b) Where no such established par value and no such recognized rate of exchange exist, the conversion rate shall reflect effectively the current value of such currency in commercial transactions.

(c) The Contracting Parties, in agreement with the International Monetary Fund, shall formulate rules governing the conversion by contracting parties of any foreign currency in respect of which multiple rates of exchange are maintained consistently with the Articles of Agreement of the International Monetary

Fund. Any contracting party may apply such rules in respect of such foreign currencies for the purposes of paragraph 2 of this Article as an alternative to the use of par values. Until such rules are adopted by the Contracting Parties, any contracting party may employ, in respect of any such foreign currency, rules of conversion for the purposes of paragraph 2 of this Article which are designed to reflect effectively the value of such foreign currency in commercial transactions.

(d) Nothing in this paragraph shall be construed to require any contracting party to alter the method of converting currencies for customs purposes which is applicable in its territory on the date of this Agreement, if such alteration would have the effect of increasing generally the amounts of duty payable.

5. The bases and methods for determining the value of products subject to duties or other charges or restrictions based upon or regulated in any manner by value should be stable and should be given sufficient publicity to enable trader to estimate, with a reasonable degree of certainty, the value for customs purposes.

Article XIX

Emergency Action on Imports of Particular Products

1. (a) If, as a result of unforeseen developments and of the effect of the obligations incurred by a contracting party under this Agreement, including tariff concessions, any product is being imported into the territory of that contracting party in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers in that territory of like or directly competitive products, the contracting party shall be free, in respect of such product, and to the extent and for such time as may be necessary to prevent or remedy such injury, to suspend the obligation in whole or in part or to withdraw or modify the concession.

(b) If any product, which is the subject of a concession with respect to a preference, is being imported into the territory of a contracting party in the circumstances set forth in sub-paragraph (a) of this paragraph, so as to cause or threaten serious injury to domestic producers of like or directly competitive products in the territory of a contracting party which receives or received such preference, the importing contracting party shall be free, if that other contracting party so requests, to suspend the relevant obligation in whole or in part or to withdraw or modify the concession in respect of the product, to the extent and for such time as may be necessary to prevent or remedy such injury.

2. Before any contracting party shall take action pursuant to the provisions of paragraph 1 of this Article, it shall give notice in writing to the Contracting Parties as far in advance as may be practicable and shall afford the Contracting Parties and those contracting parties having a substantial interest as exporters of the product concerned an opportunity to consult with it in respect of the proposed action. When such notice is given in relation to a concession with respect to a preference, the notice shall name the contracting party which has requested the action. In critical circumstances, where delay would cause damage which it would be difficult to repair, action under paragraph 1 of this Article may be taken provisionally without prior consultation, on the condition that consultation shall be effected immediately after taking such action.

3. (a) If agreement among the interested contracting parties with respect to the action is not reached, the contracting party which proposes to take or continue the action shall, nevertheless, be free to do so, and if such action is taken or continued, the affected contracting parties shall then be free, not later than ninety days after such action is taken, to suspend, upon the expiration of thirty days from the day on which written notice of such suspension is received by the Contracting Parties, the application to the trade of the contracting party taking such action, or, in the case envisaged in paragraph 1 (b) of this Article, to the trade of the contracting party requesting such action, of such substantially equivalent concession of other obligations under this Agreement the suspension of which the Contracting Parties do no disapprove.

   (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, where action is taken under paragraph 2 of this Article without prior consultation and causes or threatens serious injury in the territory of a contracting party to the domestic producers of products affected by the action, that contracting party shall, where delay would cause damage difficult to repair, be free to suspend, upon the taking of the action and throughout the period of consultation, such concessions or other obligations as may be necessary to prevent or remedy the injury.

Article XXIV

Territorial Application – Frontier Traffic –
Customs Unions and Free-trade Areas

1. The provisions of this Agreement shall apply to the metropolitan customs territories of the contracting parties and to any other customs territories in respect of which this Agreement has been accepted under Article XXXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application. Each such customs territory shall, exclusively for the purposes of the territorial application of this Agreement, be treated as though it were a contracting party; Provided that the provisions of this paragraph shall not be construed to create any rights or obligations as between two or more customs territories in respect of which this Agreement has been accepted under Article XXVI or is being applied under Article XXXIII or pursuant to the Protocol of Provisional Application by a single contracting party.
2. For the purposes of this Agreement a customs territory shall be understood to mean any territory with respect to which separate tariffs or other regulations of commerce are maintained for a substantial part of the trade of such territory with other territories.
3. The provisions of this Agreement shall not be construed to prevent:
    (a) Advantages accorded by any contracting party to adjacent countries in order to facilitate frontier traffic;
    (b) Advantages accorded to the trade with the Free Territory of Trieste by countries contiguous to that territory, provided that such advantages are not in conflict with the Treaties of Peace arising out of the Second World War.
4. The contracting parties recognize the desirability of increasing freedom of trade by the development, through voluntary agreements, of closer integration between the economies of the countries parties to such agreements. They also recognize that the purpose of a customs union or of a

free-trade area should be to facilitate trade between the constituent territories and not to raise barriers to the trade of other contracting parties with such territories.

5. Accordingly, the provisions of this Agreement shall not prevent, as between the territories of contracting parties, the formation of a customs union or a free-trade area or the adoption of an interim agreement necessary for the formation of a customs union or of a free-trade area; Provided that:
   (a) with respect to a customs union, or an interim agreement leading to the formation of a customs union, the duties and other regulations of commerce imposed at the institution of any such union or interim agreement in respect of trade with contracting parties not parties to such union or agreement shall not on the whole be higher or more restrictive than the general incidence of the duties and regulations of commerce applicable in the constituent territories prior to the formation of such union or the adoption of such interim agreement, as the case may be;
   (b) with respect to a free-trade area, or an interim agreement leading to the formation of a free-trade area, the duties and other regulations of commerce maintained in each of the constituent territories and applicable at the formation of such free-trade area or the adoption of such interim agreement to the trade of contracting parties not included in such area or not parties to such agreement shall not be higher or more restrictive than the corresponding duties and other regulations of commerce existing in the same constituent territories prior to the formation of the free-trade area, or interim agreement, as the case may be; and
   (c) any interim agreement referred to in sub-paragraphs (a) and (b) shall include a plan and schedule for the formation of such a customs union or of such a free-trade area within a reasonable length of time.

6. If, in fulfilling the requirements of sub-paragraph 5 (a), a contracting party proposes to increase any rate of duty inconsistently with the provisions of Article II, the procedure set forth in Article XXVIII shall apply. In providing for compensatory adjustment, due account shall be taken of the compensation already afforded by the reductions brought about in the corresponding duty of the other constituents of the union.

7. (a) Any contracting party deciding to enter into a customs union or free-trade area, or an interim agreement leading to the formation of such a union or area, shall promptly notify the Contracting Parties and shall make available to them such information regarding the proposed union or area as will enable them to make such reports and recommendations to contracting parties as they may deem appropriate.
   (b) If, after having studies the plan and schedule included in an interim agreement referred to in paragraph 5 in consultation with the parties to that agreement and taking due account of the information made available in accordance with the provisions of sub-paragraph (a), the Contracting Parties find that such agreement is not likely to result in the formation of a customs union or of a free-trade area within the period contemplated by the parties to the agreement or that such period is not a reasonable one, the Contracting Parties shall make recommendations to the parties to the agreement. The parties shall not maintain or put into force, as the case may be, such agreement if they are not prepared to modify it in accordance with these recommendations.
   (c) Any substantial change in the plan or schedule referred to in paragraph 5 (c) shall be communicated to the Contracting Parties, which may request the contracting parties concerned to consult with them if the change seems likely to jeopardize or delay unduly the formation of the customs union or of the free-trade area.
8. For the purposes of this Agreement:
   (a) A customs union shall be understood to mean the substitution of a single customs territory for two or more customs territories, so that
      (i) duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XIV, XV and XX) are eliminated with respect to substantially all the trade between the constituent territories of the union or at least with respect to substantially all the trade in products originating in such territories, and,
      (ii) subject to the provisions of paragraph 9, substantially the same duties and other regulations of commerce are applied by each of

the members of the union to the trade of territories not included in the union;

(b) A free-trade area shall be understood to mean a group of two or more customs territories in which the duties and other restrictive regulations of commerce (except, where necessary, those permitted under Articles XI, XII, XIII, XV and XX) are eliminated on substantially all the trade between the constituent territories in products originating in such territories.

9. The preferences referred to in paragraph 2 of Article I shall not be affected by the formation of a customs union or of a free-trade area but may be eliminated or adjusted by means of negotiations with contracting parties affected. This procedure of negotiations with affected contracting parties shall, in particular, apply to the elimination of preferences required to conform with the provisions of paragraph 8 (a) (i) and paragraph 8 (b).

10. The Contracting Parties may by a two-thirds majority approve proposals which do not fully comply with the requirements of paragraphs 5 to 9 inclusive, provided that such proposals lead to the formation of a customs union or a free-trade area in the sense of this Article.

11. Taking into account the exceptional circumstances arising out of the establishment of India and Pakistan as independent States and recognizing the fact that they have long constituted an economic unit, the contracting parties agree that the provisions of this Agreement shall not prevent the two countries from entering into special arrangements with respect to the trade between them, pending the establishment of their mutual trade relations on a definitive basis.

12. Each contracting party shall take such reasonable measures as may be available to it to ensure observance of the provisions of this Agreement by the regional and local governments and authorities within its territory.

Appendix III: List of Beneficiaries Under the Generalized System of Preferences (January 1983)

Algeria
American Samoa
Angola
Antigua
Argentina
Ascension
Bahamas
Bahrain
Bangladesh
Barbados
Belize
Benin
Bermuda
Bhutan
Bolivia
Botswana
Brazil
British Indian Ocean Territory
British Solomon Islands
British Virgin Islands
Brunei Darussalam
Bulgaria
Burma
Burundi
Cameroon
Cape Verde
Cayman Islands
Central African Republic
Chad
Chile
China
Christmas Island
Cocos Island
Colombia
Comoro Archipelago
Comoros
Congo
Cook Islands
Costa Rica
Cuba
Cyprus
Dahomey
Dominica
Dominican Republic
Ecuador
Egypt
El Salvador
Equatorial Guinea
Ethiopia
Falkland Islands
Fiji
French Polynesia
French Southern and Antarctic Territories
French Territory of the Afars and the Issas
Gabon
Gambia
Ghana
Gibraltar
Gilbert and Ellice Islands
Grenada
Guam
Guatemala
Guinea
Guinea-Bissau
Guyana
Haiti
Honduras
Hong Kong
India
Indonesia
Iran
Iraq
Israel
Ivory Coast
Jamaica
Kenya
Khmer Republic

Korea, Republic of
Kuwait
Laos
Lebanon
Lesotho
Liberia
Madagascar
Malawi
Malaysia
Maldives
Mali
Malta
Mauritania
Mauritius
Mexico
Montserrat
Morocco
Mozambique
Nauru
Nepal
Netherlands Antilles
New Caledonia and dependencies
Nicaragua
Niger
Nigeria
Norfolk Island
Pakistan
Panama
Papua New Guinea
Paraguay
Peru
Philippines
Pitcairn
Portugal
Qatar
Romania
Rwanda
St. Christopher-Nevis-Anguilla
St. Helena
St. Lucia
Sainte-Pierre and Miquelon
St. Vincent
Senegal
Seychelles
Sierra Leone
Singapore
Somalia
Spanish North Africa
Sri Lanka
Sudan
Surinam
Swaziland
Syria
Tanzania
Thailand
Togo
Tonga
Trinidad and Tobago
Tristan da Cunha
Tunisia
Turkey
Turks and Caicos Islands
Uganda
United Arab Emirates
United Republic of Tanzania
Upper Volta
Uruguay
Venezuela
Viet-Nam, Republic of
Virgin Islands of the United States
Western Samoa
Yemen, People's Democratic Republic
Yugoslavia
Zaire
Zambia
Zimbabwe

Appendix IV: Classification of Countries According to GNP Per Capita

Low-income economies

Ethiopia
Bangladesh
Mali
Nepal
Zaire
Burkina Faso
Burma
Malawi
Uganda
Burundi
Niger
Tanzania
Somalia
India
Rwanda
Central African Rep.
Togo
Benin
China
Guinea
Haiti
Ghana
Madagascar
Sierra Leone
Sri Lanka
Kenya
Pakistan
Sudan
(Afghanistan)
(Bhutan)
(Chad)
(Kampuchea, Dem.)
(Lao PDR)
(Mozambique)
(Viet-Nam)

Lower middle-income

Senegal
Lesotho
Liberia
Mauritania
Bolivia
Yemen, PDR
Yemen Arab. Rep.
Indonesia
Zambia
Honduras
Egypt, Arab. Rep.
El Salvador
Ivory Coast
Zimbabwe
Morocco
Papua New Ginea
Philippines
Nigeria
Cameroon
Thailand
Nicaragua
Costa Rica
Peru
Guatemala
Congo, People's Rep.
Turkey
Tunisia
Jamaica
Dominican Rep.
Paraguay
Ecuador
Columbia
(Angola)
(Cuba)
(Korea, Dem. Rep.)
(Lebanon)
(Mongolia)

Upper middle-income

Jordan
Syrian Arab. Rep.
Malaysia
Chile
Brazil
Korea, Rep. of
Argentina
Panama
Portugal
Mexico
Algeria
South Africa
Uruguay
Yugoslavia
Venezuela
Greece
Israel
Hong Kong
Singapore
Trinidad and Tobago
(Iran, Islamic Rep.)
(Iraq)

High-income oil exporters

Oman
Libya
Saudi Arabia
Kuwait
United Arab Emirates

Industrial market economies

Spain
Ireland
Italy
New Zealand
Belgium
United Kingdon
Austria
Netherlands
Japan
France
Finland
Germany, Fed. Rep.
Australia
Denmark
Canada
Sweden
Norway
United States
Switzerland

East European non-market economies

Hungary
(Albania)
(Bulgaria)
(Czechoslovakia)
(Germany, Dem. Rep.)
(Poland)
(Romania)
(USSR)

Notes:
In each group, economies are listed in ascending order of GNP per capita except for those for which no GNP per capita can be calculated. Those countries are listed alphabetically, in brackets, at the end of their group.

Source: World Bank, *World Development Report*, 1985.

Appendix V: Multilateral Trade Negotiations: Status of Acceptances of Protocols, Agreements and Arrangements (as of 21 November 1985)

Countries Contracting Parties		Geneva 1979 Protocol	Supplementary 1979 Protocol	Technical Barriers	Government Procurement	Subsidy Countervail	Bovine Meat	Dairy	Customs Valuation[1]	Import Licensing	Civil Aircraft	Anti-Dumping
Argentina	AR	A		S	O	O	A	A	S*	S	O	O
Australia	AU		A	O		A*	A	A	A	A		A
Austria	AT	A		A	A	A	A		A	A	A	A
Bangladesh	BD			O	O	O	O	O	O	O	O	O
Barbados	BB											
Belgium	BE	A	A	A							A	
Belize	BZ						Prov.					
Benin	BJ											
Brazil	BR		A	A	O	A	A	O	A*	O	O	A
Burkina Faso	BF											
Burma	BU							O				
Burundi	BI											
Cameroon	CM				O						O	
Canada	CA	A	A	A	A	A	A	O	A*	A	A	A
Cent. Afr. Rep.	CF											
Chad	TD											
Chile	CL		A	A	O	A		O	O	A		O
Colombia	CO			O		O	A		O	O		O
Congo	CG											
Cuba	CU			O	O	O	O	O	O	O		O
Cyprus	CY											
Czechoslovakia	CS	A		A*	O	O			A	A	O	A
Denmark	DK	A*		A*							A*	
Dominican Rep.	DO		A		O							
Egypt	EG		A	A	O	A	A	S	O	A	S	A
EEC	CE	A	A	A	A	A	A	A	A	A	A	A
Finland	FI	A		A	A	A	A	A	A	A		A
France	FR	A		A							A	
Gabon	GA			O	O	O	O	O		O	O	
Gambia	GM											
Germany	DE	A*		A*							A*	
Ghana	GH			O		O				O	O	O
Greece	GR			S							S	

Appendix V (Continued)

Countries Contracting Parties		Geneva 1979 Protocol	Supple-mentary 1979 Protocol	Technical Barriers	Government Procurement	Subsidy Counter-vail	Bovine Meat	Dairy	Customs Valuation[1]	Import Licensing	Civil Aircraft	Anti-Dumping
Guyana	GY											
Haiti	HT		A				O	O				
Hungary	HU	A		A*	O	O	A	A	A	A		A
Iceland	IS	A										
India	IN		A	A	O	A	O	O	A*	A	O	A
Indonesia	ID		A	O	O	A*			O	O	O	O
Ireland	IE	A		A							A	
Israel	IL	S	A	O	A	A*		O	O	O	O	O
Italy	IT	A		A							A	
Ivory Coast	CI		A	O	O	O	O	O	O	O		O
Jamaica	JM	A			O	O		O		O		
Japan	JP	A*		A	A	A	A	A	A	A	A	A
Kenya	KE				O		O					
Korea	KR		A	A	O	A			A*	O		O
Kuwait	KW											
Luxembourg	LU	A		A							A	
Madagascar	MG						O					
Malawi	MW								A*			
Malaysia	MY		A	O	O	O			O	O		O
Maldives	MV											
Malta	MT			O	O	O	O	O		O	O	O
Mauritania	MR											
Mauritius	MU										O	
Netherlands	NL	A		A							A	
New Zealand	NZ	A		A	O	A	A	A	A*	A		O
Nicaragua	NI			O	O	O	O	O	O			O
Niger	NE											
Nigeria	NG			O	O	O	O	O	O	O	O	O
Norway	NO	A		A	A	A	A	A	A	A	A	A
Pakistan	PK		A	A		A			O	A		A
Peru	PE		A	O	O	O			O	O		O
Philippines	PH			A	O	A*			O	A*		O
Poland	PL	A		O		O	A	A	O	O	O	A
Portugal	PT			A	O	A*	O	O	A	O	O	O
Romania	RO	A		A	O	O	A	A	A	A	A	A
Rwanda	RW			S								

Appendix V (Continued)

Countries Contracting Parties		Geneva 1979 Protocol	Supplementary 1979 Protocol	Technical Barriers	Government Procurement	Subsidy Countervail	Bovine Meat	Dairy	Customs Valuation[1]	Import Licensing	Civil Aircraft	Anti-Dumping
Senegal	SN			O		O				O		O
Sierra Leone	SL											
Singapore	SG		A	A	A	O			O	A	O	A
South Africa	ZA	A			O		A	A	A	A		O
Spain	ES	A	A	A	O	A	O	O	A*	O	O	A
Sri Lanka	LK			O		O			O	O	O	O
Surinam	SR											
Sweden	SE	A		A	A	A	A	A	A	A	A	A
Switzerland	CH	A		A	A	A	A	A	A	A	A	A
Tanzania	TZ			O		O				O		O
Thailand	TH			O	O	O	O		O	O		O
Togo	TG											
Trinidad & Tobago	TT			O	O	O	O	O	O	O	O	O
Turkey	TR			O	O	A	O	O	O	O	O	O
Uganda	UG											
United Kingdom	GB	A		A*	A*	A*	A*		A*	A*	A*	A*
United States	US	A		A	A	A	A		A	A	A	A
Uruguay	UY		A			A	A	A				O
Yugoslavia	YU	A		A		S	A	O	A	A	O	A
Zaire	ZR		A	O	O	O	O		O	O		O
Zambia	ZM											
Zimbabwe	ZW											
Other Countries												
Botswana	BW								A*			
Bulgaria	BG			O		O	A	A	O	O		O
Costa Rica	CR						O					
Ecuador	EC			O	O	O			O	O		O
Guatemala	GT						A*					
Mexico	MX			O		O	O	O		O		O
Panama	PA						O	O				
Paraguay	PY						Prov.					
Tunisia**	TN			A		O	A	O		O	O	O
Venezuela	VE					O				O		

1. Including Protocol. Upon entry into force of the Agreement on 1 January 1981, the provisions of the Protocol were deemed to be an integral part of the agreement.

* Reservation, Condition and/or Declaration ** Provisional accession

A: Accepted S: Signed (acceptance pending) O: Observer Prov.: provisional

Appendix VI: List of Goods Subject to Duty Under the Special Import Measures Act (as of March 3, 1986)

Product	Country and Code for Country of Origin Export
Albums, photo Albums, photo and leaves	Japan (559), Republic of Korea (564), United States (009), Hong Kong (516), Republic of Korea (564), People's Republic of China (553)
Axles, rail-car & locomotive	United Kingdom (101)
Blades, band saw	United States (009)
Brushes, paint hogbristle	People's Republic of China (553)
Charcoal briquettes	United States (009)
Clothes pins, wooden	People's Republic of China (553), Denmark (149), Romania (279), Hong Kong (516), Taiwan (578)
Door skins, hardboard panels	Poland (277)
Fabric, vinyl coated knitted Footwear, waterproof rubber	Republic of Korea (564) Czechoslovakia (246), Poland (277), Republic of Korea (564), Taiwan (578), Yugoslavia (288), Hong Kong (516), Malaysia (524), People's Republic of China (553)
Generator, hydro electric Gloves, surgical	Italy (167), Japan (559) United States (009)
Ham, canned Handbags, ladies'	Denmark (149)*, Netherlands (173)*, Hong Kong (516), Republic of Korea (564), Taiwan (578)
Insulators, porcelain	United States (009), Japan (559)
Motors, electric	United States (009), United Kingdom (101), Poland (277),

	Japan (559), Taiwan (578), Brazil (752)**, Mexico (874)
Ovens, microwave	Singapore (528), Japan (559), Republic of Korea (564)
Panels or sheets, hardboard	Poland (27), U.S.S.R. (287)
Pork luncheon meat, canned	Denmark (149)*, Netherlands (173)*
Potatoes	State of Washington (095), States of: Idaho (084), California (090), Oregon (094), Washington (095)
Pucks, rubber hockey	Czechoslovakia (246), Democratic Republic of Germany (258)
Rope, synthetic	Republic of Korea (564)
Screws, drywall	Singapore (528), Japan (559)
Shotshells, 12 gauge	Czechoslovakia (246), Hungary (262), U.S.S.R. (287), Poland (277), United Kingdom (101), Belgium (144), France (154), Italy (167)
Ski poles, alpine	France (154), Italy (167)
Soles & heels, adhesive (bottoming material)	United States (009)
Surgical adhesive tapes & plastics	Japan (559)
Televisions, colour	Republic of Korea (564)
Tents, family camping	Democratic Republic of Germany (258), People's Republic of China (553)
Tools, tillage	Brazil (752)
Turbines, hydraulic	U.S.S.R. (287), People's Republic of China (553), Japan (559)
Twine, synthetic baler	Italy (167), Netherlands (173), Portugal (178), Brazil (752)
Washing equipment, vehicle	United States (009)

Chemicals:	
Organic pigments	Federal Republic of Germany (155), Italy (167)
Pentaerythritol	Republic of Chile (755)

Polypropopylene resin	United Kingdom (101), Belgium (144), France (154), Netherlands (173)
Soda ash (sodium carbonate)	United States (009)
Metals:	
Nickel & nickel alloy, pipe/tubing	United States (009), Federal Republic of Germany (155), Republic of Korea (564), Japan (559)
Steel:	
Alloy tool	Federal Republic of Germany (155), Japan (559), Brazil (752), United Kingdom (101), Austria (143), Sweden (185), Republic of Korea (564)
Beams-wide flange	Belgium (144), Federal Republic of Germany (155), Republic of Korea (564), United Kingdom (101), France (154), Luxembourg (170), Republic of South Africa (419), Japan (559), Spain (182)**
Barbed wire	Argentina (744), Brazil (752), Poland (277), Republic of Korea (564)
Hosewire	Belgium (144), Spain (182)
Mold	Federal Republic of Germany (155)
Pipe, carbon steel, welded	Republic of Korea (564)
Pipe, abrasion resistant	United States (009)
Plate, carbon & alloy	United Kingdom (101), Belgium (144), France (154), Federal Republic of Germany (155), Netherlands (173), Spain (182), Czechoslovakia (246), Romania (279), Republic of South Africa (419), Republic of Korea (564), Brazil (752)
Plate-coil	United States (009)
Rules, cutting and creasing	United States (009)
Sheet piling	United Kingdom (101), France (154), Luxembourg (170)
Well casing, oil and gas	United States (009), Austria (143), Federal Republic of Germany (155), Republic of Korea (564), Argentina (744)

Stainless Steel:	
Bars	France (154), Federal Republic of Germany (155), Spain (182), Japan (559), Republic of Korea (564), Brazil (752)
Fittings-buttweld	Japan (559)
Pipe and tube	United States (009), Federal Republic of Germany (155), Republic of Korea (564), United Kingdom (101), Sweden (185), Japan (559)
Plate	United Kingdom (101), Belgium (144), France (154), Federal Republic of Germany (155), Italy (167), Sweden (185)
Plate	Republic of South Africa (419), Japan (559)
Sheet	Federal Republic of Germany (155), Japan (559)
Strip	France (154), Federal Republic of Germany (155)
Wire	France (154), Federal Republic of Germany (155), Spain (182), Japan (559), Republic of Korea (564), Brazil (752)

Note: All entries are goods subject to anti-dumping duties except where indicated by * (countervailing duty) or ** (both anti-dumping and countervailing duty).

Glossary of Terms

Adjustment Assistance Benefits Program (AAB) – A Canadian government program designed specifically to assist older workers displaced from the textiles, clothing, footwear and tanning industries primarily through the provision of supplementary unemployment insurance benefits; succeeded in 1982 by the largely identical Labour Adjustment Benefits (LAB) program.

Ad Valorem Tax – A tax based on the value of a transaction. It is normally a given percentage of price at the retail, wholesale or manufacturing stage and is a common form of sales tax or customs duty.

Anti-dumping duty – An additional duty, over and above any normally appliable duty, that may be imposed by an importing country against imports that have been dumped (i.e., sold for export at a price less than their normal value in the home market) and that have led to injury or the threat thereof to a domestic industry in the importing country.

British Preferential Tariffs – These tariffs apply to imports from most Commonwealth countries but not to imports from Britain; they are generally lower than the MFN rates, but not uniformally so; for many products they have now been extended to all developing countries (see General Preferential Tariff).

Canadian Import Tribunal (CIT)—The quasi-judicial Canadian government agency charged with the responsibility for determinations of injury in anti-dumping and countervailing duties and safeguard actions; the Tribunal also handles ad hoc references from the government on trade matters.

Canadian Industrial Renewal Program (CIRP)—This Canadian government program provides adjustment assistance in the form of additional funds for the Labour Adjustment Benefit (LAB) program; it is targeted to designated communities and designated industry sectors, specifically textiles, clothing, footwear, and leather.

Canadian Occupational Projection System (COPS)—A Canadian government program designed to provide workers with improved labour market information on which to base economically sound decisions on human capital development.

Common Market—In addition to the common external tariff, the removal of internal barriers to trade in goods, and the concerted commercial policy of the customs union, a common market aims at a unified market area with the free internal movement of services, capital and factors of production, and the harmonization of economic policies.

Comparative Advantage—A country has a comparative advantage in the production of those goods that it can manufacture relatively more cheaply than other countries. It is in the interest of a country to export those goods for which it has a comparative advantage in exchange for those goods in which it has a comparative disadvantage.

Consumer Surplus—The positive difference between the price a consumer is willing to pay for each successive unit of a good or service and the price he/she actually pays in the market, summed up over all the units purchased.

Contingent Protection—Protective measures imposed in response to trading practices on the part of the importing country's trading partners which cause injury to domestic producers of similar products, such as the subsidization or dumping of exports. Anti-dumping duties, countervailing duties and safeguard measures are also commonly referred to as contingent protection measures.

Countervailing Duties – An additional duty, over and above any normally applicable customs duty, that may be imposed by an importing country in the event that a subsidy given by the government of a foreign country to an exporter has led to injury or the threat thereof to a domestic industry in the importing country.

Customs Cooperative Council (CCC) – A primarily consultative body established in 1950 in Brussels to improve and harmonize customs operations internationally. A major role has been played by the CCC in extending technical assistance and providing advice on the conversion of national tariff systems to the "Harmonized System" or "Brussels" Tariff Nomenclature.

Customs Union – A grouping of countries within which internal trade restrictions are abolished but which has a concerted commercial policy towards non-members and a common external tariff on imports from them, though the tariff rate may vary between commodities.

Deadweight Loss – A loss to society resulting from a decrease in consumer or producer surplus that is not countered by a gain elsewhere in society.

Domestic Content Requirements – These requirements specify the use of domestically produced components or materials and/or the fulfillment of specific domestic value-added requirements by companies operating in certain industries within a country.

Domestic International Sales Corporation (DISC) – A U.S. government program introduced in the early 1970s which provided preferential tax treatment for the exporting activities of domestic firms; following protests in the GATT, and a determination by the GATT Council that the DISC scheme was contrary to GATT rules, the United States replaced it with a somewhat similar arrangement called the Foreign Sales Corporation (FSC).

Dumping – Sales by a firm of a good abroad at a price lower than it charges for the same good in the domestic market.

Economic Efficiency – The production of the "best" or optimal combination of outputs by means of the most efficient combination inputs.

Economies of Scale – Reductions in the average cost of a product in the long-run, made possible by longer production runs, larger plants, larger firms, and other factors.

Enterprise Development Program (EDP) – A Canadian government program designed to assist research and development efforts by domestic firms, which is now largely subsumed into the Industrial and Regional Development Program (IRDP).

European Economic Community (EEC) – Formally established by the 1957 Treaty of Rome, the Community has moved toward the development of a customs union and common market by the removal of barriers to the free internal movement of goods, capital, labour and services, the establishment of common agricultural and transport policies among member countries and the establishment of a common external tariff. Its twelve members now include (in order of admittance): West Germany, France, Italy, Belgium, the Netherlands, Luxembourg, Denmark, Great Britain, Ireland, Greece, Spain and Portugal.

European Free Trade Association (EFTA) – The association was established by the 1958 Stockholm Convention and has achieved free trade in industrial goods among its member countries: Austria, Norway, Sweden, Switzerland, Finland and Iceland.

Foreign Sales Corporation (FSC) – successor to the U.S. Domestic International Sales Corporation (DISC).

Free Trade Area – A grouping of countries within which tariffs and other barriers to internal trade are removed, while each member country retains its own commercial policy and tariff system toward countries outside the area.

General Agreement on Tariffs and Trade (GATT) – A multilateral trade agreement, adopted in 1947, which sets out rules of conduct for international trade relations, provides a forum for multilateral negotiations for the reduction of tariffs and other barriers to trade, and provides facilities for the resolution of trade disputes. The headquartes of the GATT is in Geneva.

General Preferential Tariffs (GPT) – These Canadian tariff rates were established in 1975 and apply to a long list of imports from virtually all developing countries that have this status in the UN. The rates are the same as the BP rates or one-third below the MFN rates, whichever is less. GPT rates have been withheld from "sensitive" products such as clothing, textiles, footwear and colour television sets.

General Tariffs – These are the highest rates under the Canadian tariff system. The rates are applicable only to a few countries that are not GATT members or have no other trade agreement with Canada.

Generalized System of Preferences (GSP) – An arrangement developed in the early 1970s within the United Nations Conference on Trade and Development (UNCTAD) whereby the developed countries, individually, extend lower and preferential tariff rates on varying lists of imports from the group of less developed countries.

Gross Domestic Product (GDP) – The value of all goods and services produced within the boundaries of a given country.

Gross National Product (GNP) – The value of all goods and services produced, both domestically and abroad, by the corporate and private citizens of a given country.

Human Capital – The concept of "human capital" refers to investments (such as schooling, training, job searches, health care, etc.) that are made in human resources so as to improve their productivity. Costs are incurred in the expectation of future benefits; hence, the term "investment in human resources".

Industrial and Regional Development Program (IRDP) – The 1983 successor to Canada's Enterprise Development Program.

Industry and Labour Adjustment Program (ILAP) – This 1981-84 program was established by the federal government to provide adjustment assistance additional to that provided to the Labor Adjustment Benefit program and targeted to designated communities.

Infant Industry – An industry in an early stage of development whose share of its domestic market is small in relation to imports of the product concerned; on these grounds it is argued that special measures of protection from imports, and other assistance, should be given to the industry for a temporary period.

Infrastructure—Those structural elements of an economy which facilitate the flow of goods and services between buyers and sellers. Examples of these elements are communications and transport, housing, and power systems.

Labour Adjustment Benefit Program (LAB)—The 1982 Successor of the Adjustment Assistance Benefits program.

Less Developed Countries (LDC's) or "Developing" Countries—The poorer, underdeveloped countries of the world, which as a group are distinguished from the "industrialized" or "developed" group of countries and the "state-trading" countries. The more advanced among the LDCs are referred to as the "newly-industrialized countries" (NICs).

Market Failure—The inability of a system of private markets to provide certain goods at the most socially desirable or optimal level.

Market Power—The ability of a single or group of buyer(s) or seller(s) to influence the price of the product or service in which it is trading.

Marketing Board—Marketing boards restrict the output of certain commodities in an effort to raise prices and stabilize incomes or prices in various sectors of the economy, especially in agriculture.

Monopoly—A market structure in which there is only one seller.

Most-Favoured Nation (MFN)—A clause in the GATT and other trade agreements which requires that the parties to the agreement must grant to each other treatment as favourable as they extend to any other country regarding the application of import and export duties and other trade regulations.

Multi-Fibre Arrangement (MFA)—A multilaterally negotiated umbrella agreement, adopted in 1973 within the GAAT framework, setting guidelines for bilaterally negotiated quantitative controls on imports of textiles and clothing products by the industrialized countries from "low cost" suppliers where these cause "market disruption".

Oligopoly – A market structure in which the number of sellers is sufficiently small to enable them to influence the price of their products or services in the marketplace.

Orderly Marketing Arrangements (OMA) – A form of trade restriction between an importing country and one or more trading partners which is negotiated bilaterally, normally administered by the importing country, and falls outside GATT rules; usually takes the form of quantitative restrictions (absolute volume or market share) but may also include undertakings regarding prices and delivery schedules.

Organization for Economic Cooperation and Development (OECD) – An international governmental organization established in 1961 (1) to formulate, coordinate and promote policies encouraging economic growth; (2) to stimulate and harmonize its members' efforts regarding the provision of financial and technical aid for developing countries; and (3) to contribute to the expansion of multilateral trade conducted on a non-discriminatory basis. Current members include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, West Germany, Greece, Iceland, Ireland, Italy, Japan, Luxembourg, the Netherlands, New Zealand, Portugal, Spain, Sweden, Switzerland, Turkey, Great Britain and the United States.

Predatory Pricing – A practice whereby sellers attempt to drive prices down to unprofitable levels for a period in order to weaken or eliminate existing competitors.

Product Differentiation – This exists within an industry when each producer is selling a product whose characteristics are such as to distinguish it from the products of competitors.

Producer Surplus – The difference between the price at which producers would be willing to sell each successive unit of a good or service and the price actually obtained in the market, summed up over all the units sold.

Portable Wage Subsidies (PWS) – A sub-element of ILAP, the PWS was established in 1981 and provides eligible, older, laid-off workers with vouchers, tenable anywhere in Canada, entitling prospective new employers to a $2 per hour subsidy.

Quota – A limit imposed by governments on the quantity of goods produced or purchased. Import quotas can be used to restrict the purchase of goods from foreign suppliers, while export quotas have been used to stabilize the export earnings of countries producing primary products by restricting supply, and thereby sustaining prices.

Safeguard Measures—Trade restrictions imposed on "fairly traded" (i.e. non-dumped and non-subsidized) imports to relieve or prevent injury to the domestic industry of the importing country; may take the form of tariffs, import quotas, or other measures; GATT Article XIX permits the use of safeguard measures under specified conditions.

Sector Firms Program (SFP)—This program, a component of the CIRP, was established in 1981 and provides assistance to firms in the textiles, clothing and footwear industries for comprehensive analysis of company operations, development of detailed long-term restructuring plans and implementation of those plans.

Special Import Measures Act (SIMA)—This act, adopted in 1984, governs Canada's use of countervail, anti-dumping and safeguard measures against imports; it creates the Canadian Import Tribunal, which investigates whether dumped, subsidized or other imported goods are causing injury to domestic producers.

Subsidy—A payment, made by a government to producers, which forms a wedge between the price consumers pay and the costs incurred by producers, such that the price is less than marginal costs of production.

Tariff—A tax imposed on a good imported into a country. A tariff may be specific, when levied as a fixed sum per unit of the imported good, or ad valorem, when applied at a percentage rate with reference to the value of the import.

Tariff Board—The quasi-judicial Canadian government agency charged with resolving disputes over tariff classification, value for duty, and other matters relating to customs and excise; the Board also handles ad hoc references from the government on these matters.

Textile and Clothing Board (TCB)—The TCB was created in the early 1970s by the Textile and Clothing Board Act; it inquires into complaints about imports of textiles and clothing products, holds hearings and submits its findings and recommendations to the government.

Transitional Adjustment Assistance Program (TAAP) – Recommended by the Macdonald Commission, this program would provide a strong incentive for workers to undertake retraining, charge jobs with the aid of portable wage subsidies, or relocate geographically and would also aid workers seeking early retirement from declining industries.

Transitional Adjustment Benefits Program (TAB) – In place until 1976, the TAB program provided supplementary unemployment insurance benefits to laid-off auto workers.

United Nations Conference on Trade and Development (UNCTAD) – First convened in 1964, the role of the conference has been to protect and champion the case of the less developed countries against the trade policies of the developed countries, many of which are very restrictive.

Voluntary Export Restraints (VER) – A form of trade restriction agreed between an importing country and one or more exporters which is negotiated bilaterally, normally administered by the exporting country or countries, and falls outside GATT rules; usually takes the form of quantitative restrictions expressed in terms of absolute volume or market shares.

References and Suggested Further Reading

General

Johnson, Chalmers, ed. *The Industrial Policy Debate*. San Francisco: Institute for Contemporary Studies Press, 1984.

Whalley, John et. al. (Research Coordinator). *Canadian Trade Policies and the World Economy*. Volume 9, International Trade, The Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada. Toronto: University of Toronto Press, 1985.

Whalley, John (Research Coordinator). *Canada and the Multilateral Trading System*. Volume 10, International Trade, The Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada. Toronto: University of Toronto Press, 1985.

Whalley, John (Research Coordinator). *Canada-United States Free Trade*. Volume 11, International Trade, The Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada. Toronto: University of Toronto Press, 1985.

Chapter Two: Consequences of Protectionism

Baldwin, John and Gorecki, Paul K. "The Relationship between Trade and Tariff Patterns and the Efficiency of the Canadian Manufacturing Sector on the 1970s: A Summary" in *Canada-United States Free Trade*, edited by John Whalley. Volume 11, International Trade, The Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada. Toronto: University of Toronto Press, 1985.

Corden, W.M. *The Theory of Protection*. Oxford: Oxford University Press, 1971.

Cox, D. and Harris, R.G. *A Quantitative Assessment of the Economic Impact on Canada of Secoral Free Trade with the United States*. Toronto: Ontario Economic Council Working Paper, 1984.

Curtis, D.C.A. "Trade Policy to Promote Entry with Scale Economies, Product Variety, and Export Potential". *Canadian Journal of Economics*. Volume 16, 1983.

Daly, Donald J. "Technology Transfer and Canada's Competitive Performance in *Trade and Investment in Services: Canada/ U.S. Perspectives*, edited by Robert M. Stein. Toronto: Ontario Economic Council, 1985.

Eastman, H.C. and Stykolt, S. *The Tariff and Competition in Canada*. Toronto: Macmillan, 1967.

Ethier, W. "National and International Returns to Scale in the Modern Theory of International Trade". *American Economic Review*. Volume 72, 1983.

Grey, Rodney de C. *United States Trade Policy Legislation: A Canadian View*, Montreal: Institute for Research on Public Policy, 1982.

Harris, Richard and Cox, David. *Trade, Industrial Policy, and Canadian Manufacturing*. Toronto: Ontario Economic Council, 1983.

Hazledine, T. "The Economic Costs and Benefits of the Canadian Federal Customs Union" in *Proceedings of Workshop on the*

Political Economy of Confederation: Kingston, November 8-10, 1978, edited by N. Swan. Ottawa: The Institute of Intergovernmental Relations, Queens University and the Economic Council of Canada, 1979.

Hazledine, T. *Trade, Industrial Policy and Canadian Manufacturing: The Harris/Cox Model and an Alternative.* Discussion Paper 84-04. Vancouver: U.B.C. Department of Agricultural Economics, 1984.

Hazledine, T. and Wigington, Ian. "Protection in the Canadian Automobile Market: Costs, Benefits, and Implications for Industrial Structure and Adjustment". Draft Report submitted to the Department of Consumer and Corporate Affairs, February 1985.

Melvin, T.R. "Increasing Returns to Scale as a Determinant of Trade". *Canadian Journal of Economics.* Volume 2, 1969.

Moroz, A.R. and Meredith, Gregory T. "Economic Effects of Trade Liberalization with the U.S.A.: Evidence and Questions". Discussion Paper in International Economics, No 8510. Ottawa: Institute for Research on Public Policy, 1985.

Ricardo, David. The Principles of Political Economy and Taxation, 1917.

Wharton Economic Forecasting Associates. *Impact of Local Content Legislation on U.S. and World Economies.* WEFA: July 1983.

Wonnacott, R.T. and Wonnacott, P. *Free Trade Between the United States and Canada.* Cambridge, Mass.: Harvard University Press, 1967.

Chapter Three: Is There a Case for Protection?

Anjara, S.F. et. al. *Trade Policy Developments in Industrial Countries.* IMF Occassional Paper No. 5. Washington: International Monetary Fund, 1981.

Biggs, Margaret A. *The Challenge: Adjust or Protect?* Ottawa: The North-South Institute, 1980.

Britton, John N.H. and Gilmour, James M. *The Weakest Link: A Technological Perspective on Canadian Industrial Under Development*. Ottawa: Science Council of Canada, 1978.

Canadian Public Policy. *Canada-United States Trade and Policy Issues*, a special supplement of the journal *Canadian Public Policy/Analyse de politiques*. Volume VIII, October 1982. (See, in particular, Saunders and Wonnacott and Wonnocott articles).

Cline, William R., ed. *Trade Policy in the 1980s*. Washington: Institute for International Economics, 1983.

Conklin, David W. and Courchene, Thomas J. *Canadian Trade at a Crossroads: Options for New International Agreements*. Conference Proceedings. Toronto: Ontario Economic Council, 1985. (See in particular Rotstien and Wilkison articles).

Corden W.M. *Trade Policy and Economic Welfare*. Oxford: Oxford University Press, 1974.

Crandall, Robert W. *The U.S. Steel Industry in Recurrent Crisis*. Washington: The Brookings Institution, 1981.

Daly, D.J. *Canada's Comparative Advantage*. Discussion Paper 135. Ottawa: Economic Council of Canada, 1979.

Daly, D.J. and McCharles D.C. *Canadian Manufactured Exports: Constraints and Opportunities*. Montreal: Institute for Research on Public Policy, 1986.

Economic Council of Canada. *The Bottom Line: Technology, Trade, and Income Growth*. Ottawa: ECC, 1983.

Grey, Rodney de C. *United States Trade Policy Legislation: A Canadian View*. Montreal: The Institute for Research on Public Policy, 1982.

Hazledine, T. *The Costs of Protecting Jobs in 100 Canadian Manufacturing Industries*. Study No. 16. Ottawa: Labour Market Development Task Force, 1981.

Hufbauer, Gary Clyde, Becliner, Diane T. and Elliott, Kimberly Ann. *Trade Protection in the United States: 31 Case Studies.* Washington: Institute for International Economics, 1986.

Hufbauer, Gary Clyde and Rosen, Howard. *Trade Policy for Troubled Industries.* Policy Analysis in International Economics No. 15. Washington: Institute for International Economics, 1985.

Krauss, Melvyn B. *The New Protectionism: The Welfare State and International Trade.* New York: New York University Press for the International Center for Economic Policy Studies, 1978.

Lazar, Fred. *The New Protectionism: Non-Tariff Barriers and Their Effects on Canada.* Toronto: James Lorimer and Co., 1981.

Lipsey, Richard G. and Smith, Murray G. *Taking the Initiative: Canada's Trade Options in a Turbulent World.* Toronto: C.D. Howe Institute, 1985.

Markusen, James R. and Melvin, James R. *The Theory of International Trade and its Canadian Applications.* Toronto: Butterworths, 1984.

Melvin, J.R. *The Tax Structure and Canadian Trade.* Ottawa: Economic Council of Canada, 1975.

Moroz, Andrew R. "Canada/U.S. Automotive Trade and Trade-Policy Issues" in *Canada/United States Trade and Investment Issues,* edited by Deborah Fretz et. al. Toronto: Ontario Economic Council, 1985.

Pearson, Charles and Salebier, Gerry. *Trade, Employment and Adjustment.* Montreal: The Institute for Research on Public Policy, 1983.

Safarian, A.E. *The Performance of Foreign Owned Firms in Canada.* Montreal: Canadian-American Committee, 1969.

Office of U.S. Trade Representative. *Annual Report of the President of the United States on the Trade Agreements Program 1984-85.* Washington: USTR, 1986

Organisation for Economic Co-operation and Development. *Costs and Benefits of Protection.* Paris: OECD Publications, 1985.

Whalley, John. *Domestic Policies and the International Economic Environment.* Volume 12, International Trade, The Collected Research Studies of the Royal Commission on the Economic Union and Development Prospects for Canada. Toronto: University of Toronto Press, 1985.

Wonnacott, P. and Wonnacott, R.J. "Free Trade Between the United States and Canada: Fifteen Years Later" in *Canadian Public Policy*, Supplement VIII, 1982.

Chapter Four: The Changing International Trade System

General Agreement on Tariffs and Trade (GATT). *Basic Instruments and Selected Documents. Volume IV: Text of The General Agreements, 1969.* Geneva: GATT, March 1969.

GATT Secretariat. *Trade Policies for a Better Future: Proposals for Action.* Report to the GATT Director-General by a Group of Seven Eminent Persons. Geneva: GATT Secretariat, 1985.

Commonwealth Secretariat. *Protectionism: Threat to International Order, The Impact on Developing Countries.* London: The Secretariat, 1982.

GATT Director-General. *The Tokyo Round of Multilateral Trade Negotiations: Report (1979) and Supplementary Report (1980).* Geneva: The GATT Secretariat.

Stone, Frank. *Canada, the GATT and the International Trade System.* Montreal: The Institute for Research on Public Policy, 1984.

Hufbauer, Gary Clyde and Schott, Jeffrey T. *Trading for Growth: The Next Round of Trade Negotiations.* Policy Analyses in International Economics No. 11. Washington: Institute for International Economics, 1985.

Chapter Five: Instruments of Canadian Import Policy

Anti-dumping Tribunal. *Report by the Anti-dumping Tribunal Respecting the Effects of Imports on the Canadian Footwear Industry*. Ottawa: Supply and Services, September 1977.

Blake, Gordon. *Customs Administration in Canada: An Essay in Tariff Technology*. Toronto: University of Toronto Press, 1957.

Canadian Import Tribunal. *Report Respecting the Canadian Footwear Industry*. Ottawa: Supply and Services, June 1985.

Canadian Importers' Association. *Cheese Imports in the 1980s*. Toronto: CIA, 1982.

Elliott, G.A. *Tariff Procedures and Trade Barriers: A Study of Indirect Protection in Canada and the United States*. Toronto: University of Toronto Press, 1955.

External Affairs Canada. *Notice to Importers*, Serial No. 257, December 21, 1984.

Hines, W.R. *Trade Policy Making in Canada: Are We Doing it Right?* Montreal: The Institute for Research on Public Policy, 1985.

Pestieau, Caroline. *The Canadian Textile Policy: A Sectoral Trade Adjustment Strategy*. C.D. Howe Research Institute, 1976.

Protheroe, David R. *Imports and Politics*. Montreal: Institute for Research on Public Policy, 1980.

Stone, Frank. *Canada, the GATT and the International Trade System*. Montreal: Institute for Research on Public Policy, 1984.

Tariff Board. *The GATT Agreement on Customs Valuation*. Part I: Proposed Amendments to the Customs Act, 1981.

Tariff Board. *The GATT Agreement on Customs Valuation*. Part II: Tariff Adjustments, 1983.

Textile and Clothing Board. *Clothing Inquiry*. May 1, 1977. (Contains the text of the "Interim Report").

Textile and Clothing Board. *Inquiry 1985*. Report to the Minister, Volume One, October 31, 1985.

Textile and Clothing Board. *Textile and Clothing Inquiry*, Volumes One and Two. June 30, 1980.

Chapter Six: Structural Adjustment, Protection, and Adjustment Policy

Aho, C. Michael, and Aronson, Jonathon David. *Trade Talks: America Better Listen!* New York: Council on Foreign Relations, 1985.

Beckman, Christopher C. *Strategies of Industrial Adaptation: A Review of the Debate*. Ottawa: The Conference Board of Canada, 1983.

Charette, Michael F., Henry, Robert P., and Kaufmann, Barry. "The Evolution of Canadian Industrial Structure: An International Perspective" in *Canadian Industry Transition*, edited by D.G. McFetridge, pp. 61-132. Volume 2, Industrial Structure, The Collected Research Studies of the Royal Commission on the Economic Uniton and Development Prospects for Canada. Toronto: University of Toronto Press, 1985.

Econanalysis Incorporated for the Department of Industry, Trade and Commerce. *Trade Adjustment Assistance: The Costs of Adjustment and Policy Proposals*. Ottawa: Economic Analysis Branch, Department of Industry, Trade and Commerce, 1978.

Economic Council of Canada. *The Bottom Line: Technology, Trade and Income Growth*. Ottawa: ECC, 1983.

External Affairs, Canada. *A Review of Canadian Trade Policy*. Ottawa: Minister of Supply and Services, 1983.

GATT. *Structural Adjustment and Trade Policy*, Document no. CG.18/W/83, June 8, 1984.

George, Roy. *Targeting High-Growth Industry*. Montreal: Institute for Research on Public Policy, 1983.

Green, Christopher. *Industrial Policy: The Fixities Hypothesis*. Toronto: Ontario Economic Council, 1984.

Harris, Richard G. *Trade, Industrial Policy and International Competition*. Volume 13, International Trade, The Collected Research Studies of the Royal Commission on the Economic Union and Development Propsects for Canada. Toronto: University of Toronto Press, 1985.

Harris, Richard G. and Cox, David. *Trade Industrial Policy and Canadian Manufacturing*. Toronto: Ontario Economic Council, 1983.

Hufbauer, Gary C. and Rosen, Howard. *Trade Policy for Troubled Industries*. Policy Analyses in International Economics, No. 15. Washington: Institute for International Economics, 1985.

Hufbauer, Gary C. and Schott, Jeffrey, T. *Trading for Growth: The Next Round of Trade Negotiations*. Policy Analyses in International Economics, No. 11. Washington: Institute for International Economics, 1985.

Lawrence, Robert Z. *Can America Compete?* Washington: The Brookings Institution, 1984.

Matthews, Roy A. *Structural Change and Industrial Policy: The Redeployment of Canadian Manufacturing, 1960-80*. Ottawa: Economic Council of Canada, 1985.

OECD. "Costs and Benefits of Protection", Document No. CPE/PEU (84)1, October 25, 1984.

Pearson, Charles and Salembier, Gerry. *Trade, Employment and Adjustment*. Montreal: The Institute for Research on Public Policy, 1983.

Salembier, G.E. *Employment Dislocation Studies: An International Survey*. Discussion Paper in International Economics No. 8502. Ottawa: Institute for Research on Public Policy, 1985.

Saunders, Ronald S. *Aid to Workers in Declining Industries*. Toronto: Ontario Economic Council, 1984.

Tumlir, Jan. *National Interest and International Order*, International Issues, No. 4. London: Trade Policy Research Centre, 1978.

Tumlir, Jan. "Industrial Restructuring". A paper presented to the Symposium on World Development and the Restructuring of the Industrial Economies, Bellagio, Italy, September 10-16, 1979.

Watson, William G. *A Primer on the Economics of Industrial Policy*. Toronto: Ontario Economic Council, 1983.

Chapter Seven: Toward a Canada-United States Free Trade Agreement

Informetrica Ltd. National Forecast Service, "Free Trade: The Economic Case is Positive". *Monthly Economic Review* 4 (November 1985).

Lipsey, Richard G., and Smith, Murray G. *Taking the Initiative: Canada's Trade Options in a Turbulent World*. Toronto: C.D. Howe Institute, 1985.

Moroz, A.R., and Meredith, Gregory J. *Economic Effects of Trade Liberalization with the U.S.A.: Evidence and Questions*. International Economics Program Discussion Paper 8510. Ottawa: Institute for Research on Public Policy, 1985 (available on request).

Royal Commission on The Economic Union and Development Prospects for Canada, *Report: Volume One*. Ottawa: Minister of Supply and Services, 1985.

Stone, Frank. *Canada, the GATT and the International Trade System*. Montreal: Institute for Research on Public Policy, 1983.

Stone, Frank. "Institutional Provisions and Form of the Proposed Canada-United States Trade Agreement". Discussion Paper No. 8604 of International Economics Program, Institute for

Research on Public Policy, January 1986 (available on request).

Whalley, John. *Canada-United States Free Trade*. Research Study No. 11, Royal Commission on Economic Union and Development Prospects for Canada. Ottawa: Minister of Supply and Services, 1985.

Members of the Institute

Board of Directors

The Honourable John B. Aird, O.C.,Q.C. (Honorary Chairman)
Aird & Berlis
Toronto

The Honourable Robert L. Stanfield, P.C., Q.C., (Chairman)
Ottawa

Roger Charbonneau (Vice-Chairman)
Président du conseil d'administration
Banque Nationale de Paris (Canada)
Montréal

Dr. Robert Bandeen
President and Chief Executive Officer
Cluny Corporation
Toronto

Larry I. Bell
Chief Executive Officer
Vancouver City Savings Credit Union

Nan-Bowles de Gaspé Beaubien
Vice-présidente, ressources humaines
Télémédia Inc.
Montréal

Louis A. Desrochers, Q.C.
McCuaig, Desrochers
Edmonton

Peter C. Dobell
Director, Parliamentary Centre for Foreign Affairs and Foreign Trade
Ottawa

Dr. Rod Dobell
President, The Institute for Research on Public Policy
Victoria

Dr. Regis Duffy
President
Diagnostic Chemicals Ltd.
Charlottetown

Dr. James D. Fleck
Faculty of Management Studies
University of Toronto

Peter C. Godsoe
Vice Chairman of the Board
The Bank of Nova Scotia
Toronto

Dianne I. Hall
Senior Vice-President,
NOVA, AN ALBERTA CORPORATION
Calgary

David Hennigar
Atlantic Regional Director
Burns Fry Limited
Halifax

Roland J. Lutes, C.A.
Clarkson Gordon
Montreal

Dr. Tom Pepper
Pepper Consultants Ltd.
Saskatoon

Guy Roberge, C.R.
Conseil
Clarkson, Tétrault
Ottawa
Robert K. Siddall
Senior Vice-President & Secretary
The Great-West Life Assurance Co.
Winnipeg
Marc-Adélard Tremblay, O.C.
Départément d'anthropologie
Université Laval
Sainte-Foy

President
Rod Dobell

Vice-President and Secretary-Treasurer
Peter C. Dobell

Investment Committee
Peter C. Godsoe, Chairman
Robert Bandeen
Marcel Cazavan
Peter C. Dobell
Michael Koerner

Executive Committee
The Hon. Robert L. Stanfield
(Chairman)
Dr. Roger Charbonneau
(Vice-Chairman)
Peter C. Dobell
Dr. Rod Dobell
Dr. James D. Fleck
Roland J. Lutes

Council of Trustees
Members at Large
Dr. Stefan Dupré (Chairman)
Department of Political Science
University of Toronto
Doris H. Anderson, O.C.
Toronto
Marie-Andrée Bertrand
École de criminologie
Université de Montréal
Dr. Roger A. Blais, O.C.
Directeur, R-D coopératifs
École Polytechnique de Montréal
George Cooper, Q.C.
McInnes, Cooper and Robertson
Halifax
James S. Cowan, Q.C.
Partner
Stewart, MacKeen & Covert
Halifax
V. Edward Daughney
President
First City Trust Company
Vancouver
Dr. Wendy Dobson
President
C.D. Howe Institute
Toronto
Dr. H.E. Duckworth, O.C.
Chancellor
University of Manitoba
Winnipeg
Marc Eliesen
Chairperson
Manitoba Energy Authority
Winnipeg
Emery Fanjoy
Secretary
Council of Maritime Premiers
Halifax
Dr. Allan K. Gillmore
Executive Director
Association of Universities and Colleges of Canada
Ottawa
Dr. Donald Glendenning
President, Holland College
Charlottetown
Margaret C. Harris
Past President, The National Council of Women of Canada
Saskatoon
Richard W. Johnston
President
Spencer Stuart & Associates
Toronto
Dr. Leon Katz, O.C.
Saskatoon
Dr. David Leighton
Director, National Centre for Management Research and Development, University of Western Ontario
London

Terrence Mactaggart
Managing Director
Sound Linked Data Inc.
Mississauga
Claude Morin
École nationale d'administration publique
Québec
Milan Nastich
Canadian General Investments Limited
Toronto
Professor William A. W. Neilson
Dean, Faculty of Law
University of Victoria
Roderick C. Nolan, P.Eng.
Executive Vice-President
Neill & Gunter Limited
Fredericton
Robert J. Olivero
United Nations Secretariat
New York
Gordon F. Osbaldeston
Senior Fellow, School of Business Administration, University of Western Ontario
London
Garnet T. Page, O.C.
Calgary
Dr. K. George Pedersen
President
University of Western Ontario
London
Professor Marilyn L. Pilkington
Osgoode Hall Law School
Toronto
Dr. Stuart L. Smith
Chairman
Science Council of Canada
Ottawa
Eldon D. Thompson
President, Telesat
Vanier
Dr. Israel Unger
Department of Chemistry
University of New Brunswick
Fredericton
Philip Vineberg, O.C., Q.C.
Phillips & Vineberg
Montreal
Dr. Norman Wagner
President and Vice-Chancellor
University of Calgary
Ida Wasacase, C.M.
Winnipeg
Mr. Ronald L. Watts
Department of Political Studies
Queen's University
Kingston
Dr. R. Sherman Weaver
Director
Alberta Environmental Centre
Vegreville
Dr. Blossom Wigdor
Director, Program in Gerontology
University of Toronto

Government Representatives

Roger Burke, Prince Edward Island
Herb Clarke, Newfoundland
Joseph H. Clarke, Nova Scotia
Christian Dufour, Québec
Hershell Ezrin, Ontario
George Ford, Manitoba
Barry Mellon, Alberta
John H. Parker, Northwest Territories
Norman Riddell, Saskatchewan
Eloise Spitzer, Yukon
Barry Toole, New Brunswick

Institute Management

Rod Dobell	President
Peter Dobell	Vice-President and Secretary-Treasurer
Yvon Gasse	Director, Small & Medium-Sized Business Program
Barbara L. Hodgins	Director, Western Resources Program
John Langford	Director, Governability Research Program
Barry Lesser	Director, Information Society Studies Program
Shirley Seward	Director, Studies in Social Policy
Frank Stone	Director, International Economics Program
Parker Staples	Director, Financial Services
Donald Wilson	Director, Communications
Louis Vagianos	Director, Publishing Services
Tom Kent	Editor, *Policy Options Politiques*

Fellows- and Scholars-in-Residence:

Edgar Gallant	Fellow-in-Residence
Tom Kent	Fellow-in-Residence
Eric Kierans	Fellow-in-Residence
Jean-Luc Pepin	Fellow-in-Residence
Gordon Robertson	Fellow-in-Residence
David Burgess	Scholar-in-Residence
Barry Cooper	Scholar-in-Residence

Publications Available —January 1987

Order Address

The Institute for Research on Public Policy
P.O. Box 3670 South
Halifax, Nova Scotia
B3J 3K6

Leroy O. Stone & Claude Marceau	*Canadian Population Trends and Public Policy Through the 1980s.* 1977 $4.00
Raymond Breton	*The Canadian Condition: A Guide to Research in Public Policy.* 1977 $2.95
J.W. Rowley & W.T. Stanbury (eds.)	*Competition Policy in Canada: Stage II, Bill C-13.* 1978 $12.95
C.F. Smart & W.T. Stanbury (eds.)	*Studies on Crisis Management.* 1978 $9.95
W.T. Stanbury (ed.)	*Studies on Regulation in Canada.* 1978 $9.95
Michael Hudson	*Canada in the New Monetary Order: Borrow? Devalue? Restructure!* 1978 $6.95
David K. Foot (ed.)	*Public Employment and Compensation in Canada: Myths and Realities.* 1978 $10.95
Raymond Breton & Gail Grant Akian	*Urban Institutions and People of Indian Ancestry: Suggestions for Research.* 1979 $3.00
Thomas H. Atkinson	*Trends in Life Satisfaction Among Canadians, 1968-1977.* 1979 $3.00

W.E. Cundiff & Mado Reid (eds.)	*Issues in Canadian/U.S. Transborder Computer Data Flows.* 1979 $6.50
Meyer W. Bucovetsky (ed.)	*Studies in Public Employment and Compensation in Canada.* 1979 $14.95
Richard French & André Béliveau	*The RCMP and the Management of National Security.* 1979 $6.95
G. Bruce Doern & Allan M. Maslove (eds.)	*The Public Evaluation of Government Spending.* 1979 $10.95
Leroy O. Stone & Michael J. MacLean	*Future Income Prospects for Canada's Senior Citizens.* 1979 $7.95
Richard M. Bird	*The Growth of Public Employment in Canada.* 1979 $12.95
Richard J. Schultz	*Federalism and the Regulatory Process.* 1979 $1.50
Richard J. Schultz	*Le fédéralisme et le processus de réglementation.* 1979 $1.50
Elliot J. Feldman & Neil Nevitte (eds.)	*The Future of North America: Canada, the United States, and Quebec Nationalism.* 1979 $7.95
David R. Protheroe	*Imports and Politics: Trade Decision Making in Canada, 1968-1979.* 1980 $8.95
G. Bruce Doern	*Government Intervention in the Canadian Nuclear Industry.* 1980 $8.95
G. Bruce Doern & Robert W. Morrison (eds.)	*Canadian Nuclear Policies.* 1980 $14.95
Allan M. Maslove & Gene Swimmer	*Wage Controls in Canada: 1975-78: A Study of Public Decision Making.* 1980 $11.95
T. Gregory Kane	*Consumers and the Regulators: Intervention in the Federal Regulatory Process.* 1980 $10.95
Réjean Lachapelle & Jacques Henripin	*La situation démolinguistique au Canada: évolution passée et prospective.* 1980 $24.95
Albert Breton & Anthony Scott	*The Design of Federations.* 1980 $6.95
A.R. Bailey & D.G. Hull	*The Way Out: A More Revenue-Dependent Public Sector and How It Might Revitalize the Process of Governing.* 1980 $6.95
David R. Harvey	*Christmas Turkey or Prairie Vulture? An Economic Analysis of the Crow's Nest Pass Grain Rates.* 1980 $10.95
Donald G. Cartwright	*Official Language Populations in Canada: Patterns and Contacts.* 1980 $4.95
Richard M. Bird	*Taxing Corporations.* 1980 $6.95

Leroy O. Stone & Susan Fletcher	*A Profile of Canada's Older Population.* 1980 $7.95
Peter N. Nemetz (ed.)	*Resource Policy: International Perspectives.* 1980 $18.95
Keith A.J. Hay (ed.)	*Canadian Perspectives on Economic Relations With Japan.* 1980 $18.95
Dhiru Patel	*Dealing With Interracial Conflict: Policy Alternatives.* 1980 $5.95
Raymond Breton & Gail Grant	*La langue de travail au Québec : synthèse de la recherche sur la rencontre de deux langues.* 1981 $10.95
David M. Cameron (ed.)	*Regionalism and Supranationalism: Challenges and Alternatives to the Nation-State in Canada and Europe.* 1981 $9.95
Heather Menzies	*Women and the Chip: Case Studies of the Effects of Information on Employment in Canada.* 1981 $8.95
H.V. Kroeker (ed.)	*Sovereign People or Sovereign Governments.* 1981 $12.95
Peter Aucoin (ed.)	*The Politics and Management of Restraint in Government.* 1981 $17.95
Nicole S. Morgan	*Nowhere to Go? Possible Consequences of the Demographic Imbalance in Decision-Making Groups of the Federal Public Service.* 1981 $8.95
Nicole S. Morgan	*Où aller? Les conséquences prévisibles des déséquilibres démographiques chez les groupes de décision de la fonction publique fédérale.* 1981 $8.95
Raymond Breton, Jeffrey G. Reitz & Victor F. Valentine	*Les frontières culturelles et la cohésion du Canada.* 1981 $18.95
Peter N. Nemetz (ed.)	*Energy Crisis: Policy Response.* 1981 $10.95
James Gillies	*Where Business Fails.* 1981 $9.95
Allan Tupper & G. Bruce Doern (eds.)	*Public Corporations and Public Policy in Canada.* 1981 $16.95
Réjean Lachapelle & Jacques Henripin	*The Demolinguistic Situation in Canada: Past Trends and Future Prospects.* 1982 $24.95
Irving Brecher	*Canada's Competition Policy Revisited: Some New Thoughts on an Old Story.* 1982 $3.00
Ian McAllister	*Regional Development and the European Community: A Canadian Perspective.* 1982 $13.95
Donald J. Daly	*Canada in an Uncertain World Economic Environment.* 1982 $3.00

W.T. Stanbury & Fred Thompson	*Regulatory Reform in Canada.* 1982 $7.95
Robert J. Buchan, C. Christopher Johnston, T. Gregory Kane, Barry Lesser, Richard J. Schultz & W.T. Stanbury	*Telecommunications Regulation and the Constitution.* 1982 $18.95
Rodney de C. Grey	*United States Trade Policy Legislation: A Canadian View.* 1982 $7.95
John Quinn & Philip Slayton (eds.)	*Non-Tariff Barriers After the Tokyo Round.* 1982 $17.95
Stanley M. Beck & Ivan Bernier (eds.)	*Canada and the New Constitution: The Unfinished Agenda.* 2 vols. 1983 $10.95 (set)
R. Brian Woodrow & Kenneth B. Woodside (eds.)	*The Introduction of Pay-TV in Canada: Issues and Implications.* 1983 $14.95
E.P. Weeks & L. Mazany	*The Future of the Atlantic Fisheries.* 1983 $5.00
Douglas D. Purvis (ed.), assisted by Frances Chambers	*The Canadian Balance of Payments: Perspectives and Policy Issues.* 1983 $24.95
Roy A. Matthews	*Canada and the "Little Dragons": An Analysis of Economic Developments in Hong Kong, Taiwan, and South Korea and the Challenge/Opportunity They Present for Canadian Interests in the 1980s.* 1983 $11.95
Charles Pearson & Gerry Salembier	*Trade, Employment, and Adjustment.* 1983 $5.00
Steven Globerman	*Cultural Regulation in Canada.* 1983 $11.95
F.R. Flatters & R.G. Lipsey	*Common Ground for the Canadian Common Market.* 1983 $5.00
Frank Bunn, assisted by U. Domb, D. Huntley, H. Mills, H. Silverstein	*Oceans from Space: Towards the Management of Our Coastal Zones.* 1983 $5.00
C.D. Shearing & P.C. Stenning	*Private Security and Private Justice: The Challenge of the 80s.* 1983 $5.00
Jacob Finkelman & Shirley B. Goldenberg	*Collective Bargaining in the Public Service: The Federal Experience in Canada.* 2 vols. 1983 $29.95 (set)
Gail Grant	*The Concrete Reserve: Corporate Programs for Indians in the Urban Work Place.* 1983 $5.00
Owen Adams & Russell Wilkins	*Healthfulness of Life.* 1983 $8.00
Yoshi Tsurumi with Rebecca R. Tsurumi	*Sogoshosha: Engines of Export-Based Growth.* (Revised Edition). 1984 $10.95

Raymond Breton & Gail Grant (eds.)	*The Dynamics of Government Programs for Urban Indians in the Prairie Provinces.* 1984 $19.95
Frank Stone	*Canada, The GATT and the International Trade System.* 1984 $15.00
Pierre Sauvé	*Private Bank Lending and Developing-Country Debt.* 1984 $10.00
Mark Thompson & Gene Swimmer	*Conflict or Compromise: The Future of Public Sector Industrial Relations.* 1984 $15.00
Samuel Wex	*Instead of FIRA: Autonomy for Canadian Subsidiaries?* 1984 $8.00
R.J. Wonnacott	*Selected New Developments in International Trade Theory.* 1984 $7.00
R.J. Wonnacott	*Aggressive US Reciprocity Evaluated with a New Analytical Approach to Trade Conflicts.* 1984 $8.00
Richard W. Wright	*Japanese Business in Canada: The Elusive Alliance.* 1984 $12.00
Paul K. Gorecki & W.T. Stanbury	*The Objectives of Canadian Competition Policy, 1888-1983.* 1984 $15.00
Michael Hart	*Some Thoughts on Canada-United States Sectoral Free Trade.* 1985 $7.00
J. Peter Meekison Roy J. Romanow & William D. Moull	*Origins and Meaning of Section 92A: The 1982 Constitutional Amendment on Resources.* 1985 $10.00
Conference Papers	*Canada and International Trade. Volume One: Major Issues of Canadian Trade Policy. Volume Two: Canada and the Pacific Rim.* 1985 $25.00 (set)
A.E. Safarian	*Foreign Direct Investment: A Survey of Canadian Research.* 1985 $8.00
Joseph R. D'Cruz & James D. Fleck	*Canada Can Compete! Strategic Management of the Canadian Industrial Portfolio.* 1985 $18.00
Barry Lesser & Louis Vagianos	*Computer Communications and the Mass Market in Canada.* 1985 $10.00
W.R. Hines	*Trade Policy Making in Canada: Are We Doing it Right?* 1985 $10.00
Bertrand Nadeau	*Britain's Entry into the European Economic Community and its Effect on Canada's Agricultural Exports.* 1985 $10.00
Paul B. Huber	*Promoting Timber Cropping: Policies Toward Non-Industrial Forest Owners in New Brunswick.* 1985 $10.00

Gordon Robertson	*Northern Provinces: A Mistaken Goal. 1985* $8.00
Petr Hanel	*La technologie et les exportations canadiennes du matériel pour la filière bois-papier.* 1985 $20.00
Russel M. Wills, Steven Globerman & Peter J. Booth	*Software Policies for Growth and Export.* 1986 $15.00
Marc Malone	*Une place pour le Québec au Canada.* 1986 $20.00
A. R. Dobell & S. H. Mansbridge	*The Social Policy Process in Canada.* 1986 $8.00
William D. Shipman (ed.)	*Trade and Investment Across the Northeast Boundary: Quebec, the Atlantic Provinces, and New England.* 1986 $20.00
Nicole Morgan	*Implosion: An Analysis of the Growth of the Federal Public Service in Canada (1945-1985).* 1986 $20.00
Nicole Morgan	*Implosion: analyse de la croissance de la Fonction publique fédérale canadienne (1945-1985).* 1986 $20.00
William A.W. Neilson & Chad Gaffield (eds.)	*Universities in Crisis: A Mediaeval Institution in the Twenty-first Century.* 1986 $20.00
Fred Wien	*Rebuilding the Economic Base of Indian Communities: The Micmac in Nova Scotia.* 1986 $20.00
D.M. Daly & D.C. MacCharles	*Canadian Manufactured Exports: Constraints and Opportunities.* 1986 $20.00
Gerald d'Amboise, Yvon Gasse & Rob Dainow	*The Smaller, Independent Manufacturer: 12 Quebec Case Studies.* 1986 $20.00
David J. Roy & Maurice A.M. de Wachter	*The Life Technologies and Public Policy.* 1986 $20.00
David Feeny, Gordon Guyatt & Peter Tugwell (eds.)	*Health Care Technology: Effectiveness, Efficiency, and Public Policy.* 1986 $20.00
International Symposium	*Les répercussions de l'informatisation en milieu de travail / The Impact of New Information Technologies on the Workplace.* 1986 $20.00
N.G. Papadopoulos	*Canada and the European Community: An Uncomfortable Partnership?* 1986 $15.00
W.T. Stanbury (ed.)	*Telecommunications Policy and Regulation: The Impact of Competition and Technological Change.* 1986 $22.00

James Gillies	*Facing Reality: Consultation, Consensus and Making Economic Policy for the 21st Century.* 1986 $15.95
International Seminar	*The Management of Water Resources – Proceedings / La gestion des ressources en eau – Actes.* 1986 $20.00
Bryan Schwartz	*First Principles, Second Thoughts: Aboriginal Peoples, Constitutional Reform and Canadian Statecraft.* 1987 $25.00
William J. Coffey & Mario Polèse (eds.)	*Still Living Together: Recent Trends and Future Directions in Canadian Regional Development.* 1987 $25.00
G.E. Salembier, Andrew R. Moroz and Frank Stone	*The Canadian Import File: Trade, Protection and Adjustment.* 1987 $20.00

The Institute for Research on Public Policy
L'Institut de recherches politiques

A national, independent, research organization
Un organisme de recherche national et indépendant

Créé en 1972, l'Institut de recherches politiques est un organisme national dont l'indépendance et l'autonomie sont assurés grâce a des revenus provenant d'un fonds de dotation auquel souscrivent les gouvernements fédéral et provinciaux ainsi que le secteur privé. L'Institut obtient en outre des subventions et des contrats des gouvernements, des compagnies et des fondations afin de réaliser certains projets de recherche.

La raison d'être de l'Institut est triple :

- Servir de catalyseur au sein de la collectivité nationale en favorisant un débat public éclairé sur les principales questions d'intérêt général.
- Stimuler la participation de tous les éléments de la collectivité nationale à l'élaboration de la politique d'État.
- Trouver des solutions réalisables aux importants problèmes d'ordre politique afin de contribuer à l'élaboration d'une saine politique d'État.

Un Conseil d'administration, chargé de la décision, et une Commission de direction, responsable d'éclairer le Conseil sur l'orientation de la recherche, assurent la direction de l'Institut. L'administration courante des politiques, des programmes et du personnel relève du président.

L'Institut fonctionne de manière décentralisée et retient les services de chercheurs en divers points du Canada, s'assurant ainsi que toutes les régions contribuent aux recherches.

L'Institut cherche à favoriser, dans la mesure du possible, la compréhension et la discussion publiques des questions d'envergure nationale, controversées ou non. Il publie les conclusions de ses recherches avec clarté et impartialité. Les recommandations ou les conclusions énoncées dans les publications de l'Institut sont strictement celles de l'auteur et n'engagent aucunement le conseil d'administration, la commission de direction ou les bailleurs de fonds.

Le président assume la responsabilité ultime de publier un manuscrit au nom de l'Institut. Il jouit à cette fin des conseils du personnel de l'Institut et de critiques de l'extérieur quant à l'exactitude et l'objectivité du texte. Ne sont publiés que les textes qui traitent de façon compétente d'un sujet digne de la réflexion du public.

Les publications de l'Institut paraissent dans la langue de l'auteur et sont accompagnées d'un abrégé dans les langues officielles du Canada.